

In the opinion of Hawkins, Delafield & Wood and Quarles & Brady LLP, Bond Counsel, under existing law interest on the 2003 RACM Bonds is exempt from present State of Wisconsin income taxes. Interest on the 2003 RACM Bonds is included in gross income for federal income tax purposes. See "TAX MATTERS" herein.

CITY OF MILWAUKEE, WISCONSIN

\$21,482,013.50 Taxable General Obligation Promissory Notes, 2003 Series M10

REDEVELOPMENT AUTHORITY OF THE CITY OF MILWAUKEE, WISCONSIN

\$15,719,121.70 Taxable Pension Funding Bonds, 2003 Series C

\$130,850,000.00 Taxable Pension Funding Bonds, 2003 Series D

(Milwaukee Public Schools)

Dated: Date of Issuance

Due: As shown on following pages

The City of Milwaukee, Wisconsin (the "City") is issuing its Taxable General Obligation Promissory Notes, 2003 Series M10 (the "2003 City Notes") and the Redevelopment Authority of the City of Milwaukee, Wisconsin ("RACM") is issuing its Taxable Pension Funding Bonds, 2003 Series C and 2003 Series D (Milwaukee Public Schools) (collectively, the "2003 RACM Bonds") to fund payments to be made by the Milwaukee Public Schools ("MPS") to the Wisconsin Retirement System with respect to MPS' unfunded actuarial accrued liability for retirement benefits for MPS employees.

The 2003 City Notes are direct general obligations of the City, payable from taxes levied on all taxable property within the City, subject to taxation by the City, without limitation as to rate or amount. **The 2003 RACM Bonds are special, limited obligations of RACM and do not constitute a debt of the City, MPS, the State of Wisconsin or any political subdivision thereof or a charge against their general credit or taxing power. RACM has no taxing power.**

The payment of the principal of and interest on the 2003 RACM Bonds (but not the 2003 City Notes) when due will be insured by a financial guaranty insurance policy to be issued by MBIA Insurance Corporation concurrently with the delivery of the 2003 RACM Bonds.



This cover page contains information for quick reference only. It is not a summary of this issue. Potential purchasers must read the entire Official Statement to obtain information essential to making an informed investment decision.

The 2003 City Notes will be purchased by the City and are not being offered to potential purchasers.

Payment of the 2003 City Notes is not insured by any financial guaranty insurance policy. The Underwriters are not purchasing the 2003 City Notes and the Underwriters make no representation as to the accuracy or completeness of the information contained in this Official Statement regarding the City or the 2003 City Notes. The Underwriters make no representation as to whether a secondary market will develop with respect to the 2003 City Notes.

The 2003 RACM Bonds will be offered when, as and if issued by RACM and accepted by the Underwriters, subject to the approval of legality by Hawkins, Delafield & Wood and Quarles & Brady LLP, Bond Counsel. It is expected that the 2003 RACM Bonds in definitive form will be available through the facilities of DTC, New York, New York, on or about December 23, 2003.

LEHMAN BROTHERS

CITIGROUP

ABN AMRO FINANCIAL SERVICES, INC.

LOOP CAPITAL MARKETS, INC.

MELVIN SECURITIES, L.L.C.

MORGAN STANLEY

Morgan Stanley & Co. Incorporated

Broker Dealer for Auction Rate Securities: Lehman Brothers

**CITY OF MILWAUKEE, WISCONSIN
TAXABLE GENERAL OBLIGATION PROMISSORY NOTES**

MATURITY SCHEDULE

\$21,482,013.50 2003 Series M10

Maturity Date (April 1)	Issue Amount	Accreted Value Rate
2005	\$ 287,804.95	1.950%
2006	494,733.75	2.630%
2007	22,489.75	3.260%
2008	855,335.40	3.810%
2009	413,592.40	4.390%
2010	1,132,308.80	4.750%
2011	728,145.55	5.030%
2012	1,343,964.60	5.230%
2013	1,429,488.55	5.410%
2014	1,079,504.00	5.580%
2015	1,553,466.60	5.740%
2016	1,238,434.00	5.840%
2017	1,635,238.50	5.970%
2018	1,338,544.40	6.110%
2019	1,666,726.60	6.200%
2020	1,676,321.85	6.280%
2021	1,433,148.10	6.330%
2022	1,684,004.60	6.390%
2023	1,468,761.10	6.410%

The 2003 City Notes will be purchased by the City and are not being offered to potential purchasers.

Payment of the 2003 City Notes is not insured by any financial guaranty insurance policy. The Underwriters are not purchasing the 2003 City Notes and the Underwriters make no representation as to the accuracy or completeness of the information contained in this Official Statement regarding the City or the 2003 City Notes. The Underwriters make no representation as to whether a secondary market will develop with respect to the 2003 City Notes.

**REDEVELOPMENT AUTHORITY OF THE CITY OF MILWAUKEE, WISCONSIN
TAXABLE PENSION FUNDING BONDS
(MILWAUKEE PUBLIC SCHOOLS)**

MATURITY SCHEDULE

\$15,719,121.70 2003 Series C
(RACM Capital Appreciation Bonds)

<u>Maturity Date</u> <u>(April 1)</u>	<u>Issue</u> <u>Amount</u>	<u>Accreted</u> <u>Value</u> <u>Rate</u>	<u>Accreted Value</u> <u>at Maturity</u>	<u>CUSIP No.</u> [†]
2026	\$ 388,094.05	6.270%	\$ 1,535,000	60242NDA6
2027	404,357.80	6.280%	1,705,000	60242NDB4
2028	692,807.15	6.290%	3,115,000	60242NDC2
2029	815,391.40	6.300%	3,910,000	60242NDD0
2030	825,987.50	6.310%	4,225,000	60242NDE8
2031	1,021,563.00	6.320%	5,575,000	60242NDF5
2032	1,027,684.35	6.330%	5,985,000	60242NDG3
2033	1,173,619.60	6.340%	7,295,000	60242NDH1
2034	1,176,967.00	6.350%	7,810,000	60242NDJ7
2035	1,280,845.50	6.360%	9,075,000	60242NDK4
2036	1,318,296.00	6.370%	9,975,000	60242NDL2
2037	1,323,292.35	6.380%	10,695,000	60242NDM0
2038	1,378,139.00	6.390%	11,900,000	60242NDN8
2039	1,373,716.50	6.400%	12,675,000	60242NDP3
2040	1,404,528.50	6.410%	13,850,000	60242NDQ1
2041	113,832.00	6.420%	1,200,000	60242NDR9

\$130,850,000 2003 Series D
(Auction Rate Securities)

<u>Maturity</u> <u>Date</u>	<u>Principal</u> <u>Amount</u>	<u>Length of</u> <u>Initial</u> <u>Auction</u> <u>Rate</u> <u>Period</u>	<u>Initial</u> <u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Interest</u> <u>Payment</u> <u>Date</u>	<u>Initial</u> <u>Auction</u> <u>Date</u>	<u>Length of</u> <u>Auction</u> <u>Period</u> <u>Generally</u>	<u>Interest</u> <u>Payment</u> <u>Date</u> <u>Generally</u>	<u>CUSIP</u> <u>No.</u> [†]
10/01/2043	\$130,850,000	37 days	1.20%	01/29/2004	01/28/2004	35 Days	Every 5th Thursday	60242ncz2

Broker Dealer for Auction Rate Securities: Lehman Brothers

Price of all 2003 RACM Bonds: 100%

The payment of the principal of and interest on the 2003 RACM Bonds when due will be insured by a financial guaranty insurance policy to be issued by MBIA Insurance Corporation concurrently with the delivery of the 2003 RACM Bonds.



Ratings: S&P: AAA
 Moody's Aaa
 Fitch AAA

Underlying Ratings: S&P: A+
 Moody's: A1
 Fitch: AA

(See "RATINGS" herein.)

[†] CUSIP numbers are provided for convenience of reference only. Neither the City, RACM, MPS nor the Underwriters take any responsibility for the accuracy of such numbers.

This Page Has Been Intentionally Left Blank

REGARDING USE OF THIS OFFICIAL STATEMENT

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2003 RACM Bonds by a person in any jurisdiction in which it is unlawful for such person to make an offer, solicitation or sale. No dealer, broker, salesperson or other person has been authorized by the City, RACM, the Milwaukee Board of School Directors ("MPS") or the Underwriters to give any information or to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the City, RACM, MPS or the Underwriters.

This Official Statement is not to be construed as a contract with the purchasers of the 2003 RACM Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The information set forth in this Official Statement has been obtained from official sources and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and, with respect to information obtained from sources other than the City, RACM or MPS, is not to be construed as a representation by the City, RACM, or MPS. The information and expressions of opinions herein are subject to change without notice, and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City, RACM or MPS since the date hereof. This Official Statement is submitted in connection with the sale of the 2003 RACM Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. All summaries of the documents referred to in this Official Statement are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

Certain statements in this Official Statement, which may be identified by the use of such terms as plan, project, expect, estimate, budget or other similar words, constitute forward-looking statements. Such forward-looking statements refer to the achievement of certain results or other expectations or performance which involved known and unknown risks, uncertainties and other factors. These risks, uncertainties and other factors may cause actual results, performance or achievements to be materially different from any projected results, performance or achievements described or implied by such forward-looking statements. Neither the City, RACM nor MPS plans to issue updates or revisions to such forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based, occur, or if actual results, performance or achievements are materially different from any results, performance or achievements described or implied by such forward-looking statements.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement relating to the 2003 RACM Bonds in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. **The Underwriters make no representation as to the information in this Official Statement relating to the City or the 2003 City Notes.**

The 2003 RACM Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption from the registration requirements contained in such act. The registration or qualification of the 2003 RACM Bonds in accordance with the applicable provisions of securities laws of the states in which the 2003 RACM Bonds have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof. Neither these states nor any of their agencies have passed upon the merits of the 2003 RACM Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

In connection with the offering of the 2003 RACM Bonds, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the 2003 RACM Bonds offered hereby at a level above that which might otherwise prevail in the open market. Such stabilization, if commenced, may be discontinued at any time. The Underwriters may offer and sell the 2003 RACM Bonds to certain dealers, institutional investors and others at prices lower than the public offering prices stated on the inside cover page hereof and said public offering prices may be changed from time to time by the Underwriters.

TABLE OF CONTENTS

SUMMARY OF SELECTED INFORMATION - 2003 CITY NOTES	i
SUMMARY OF SELECTED INFORMATION -- 2003 RACM BONDS	iii
INTRODUCTION	1
CITY OF MILWAUKEE, WISCONSIN	2
REDEVELOPMENT AUTHORITY OF THE CITY OF MILWAUKEE	2
MILWAUKEE PUBLIC SCHOOLS	2
PLAN OF FINANCING	3
ESTIMATED SOURCES AND USES OF FUNDS	4
SECURITY AND SOURCE OF PAYMENT FOR THE 2003 RACM BONDS	4
BOND INSURANCE.....	6
CERTAIN RISK FACTORS	8
CONSTITUTIONAL AND STATUTORY DEBT LIMITATIONS	11
THE 2003 RACM BONDS.....	11
TAX MATTERS	17
ERISA CONSIDERATIONS	20
CONTINUING DISCLOSURE	21
LEGAL MATTERS	21
NO LITIGATION.....	21
RATINGS.....	22
FINANCIAL ADVISOR.....	22
UNDERWRITING.....	22
MISCELLANEOUS.....	22
 APPENDIX A - City Of Milwaukee, Wisconsin	 A-1
APPENDIX B - Audited General Purpose Financial Statements Of the City of Milwaukee, Wisconsin for the Year Ended December 31, 2002	 B-1
APPENDIX C - Milwaukee Public Schools.....	C-1
APPENDIX D - Basic Financial Statements Year Ended June 30, 2002 and Independent Auditors' Report.....	D-1
APPENDIX E - Definitions of Certain Terms And Summary Of The Principal Bond Documents	E-1
APPENDIX F - Book-Entry Only System	F-1
APPENDIX G - Form Of Bond Insurance Policy.....	G-1
APPENDIX H - Form Of Bond Counsel Opinion.....	H-2
APPENDIX I - Form Of Continuing Disclosure Certificate	I-1
APPENDIX J - Auction And Settlement Procedures	J-1
APPENDIX K - Table Of Accreted Values	K-1

SUMMARY OF SELECTED INFORMATION -- 2003 CITY NOTES

This Summary of Selected Information -- 2003 City Notes is subject in all respects to the more complete information contained in this Official Statement. The City of Milwaukee, Wisconsin Taxable General Obligation Promissory Notes, 2003 Series M10 (the "2003 City Notes") referred to herein are not being offered to the general public. Information with respect to the 2003 City Notes is included in this Official Statement solely to provide potential purchasers of the 2003 RACM Bonds with information on the overall financing being accomplished with the proceeds of the 2003 City Notes and the 2003 RACM Bonds.

City of Milwaukee, Wisconsin:

The City of Milwaukee, Wisconsin (the "City") was incorporated on January 31, 1846 pursuant to the laws of the territory of Wisconsin. The City, operating under a Home Rule Charter since 1847, has a council-mayor form of government. The City is Wisconsin's largest city with a population of 587,800 and is the principal trade, service and financial center of southeastern Wisconsin.

Milwaukee Public Schools:

The Milwaukee Board of School Directors which operates the Milwaukee Public Schools ("MPS") was established on February 3, 1846 and operates under Chapter 119 of the Wisconsin Statutes. MPS provides elementary, secondary, vocational and special education services for grades K through 12 to residents of the City.

Purpose of the Issue:

The 2003 City Notes are being issued to provide funds to allow MPS to retire its unfunded actuarial accrued liability (the "UAAL") currently owed to the Wisconsin Retirement System ("WRS") with respect to retirement benefits for MPS employees. As of the date of closing, the UAAL is projected to be \$165,505,295.70. The proceeds from the sale of the 2003 City Notes will be used to pay, in part, the UAAL owed to WRS. See "PLAN OF FINANCING."

Series:

The 2003 City Notes will be issued in the following series:

\$21,482,013.50 Series 2003 M10

Maturities and Interest Rates:

See the Maturity Schedule on the inside cover page for information concerning the maturity dates and interest rates of the 2003 City Notes. The 2003 City Notes will accrete in value from the Date of Issuance at the Accreted Value Rates set forth on the inside cover page, compounded semi-annually at such rate on April 1 and October 1 of each year, commencing April 1, 2004, to the maturity thereof. No payments will be made on the 2003 City Notes prior to their maturity

Redemption:	The 2003 City Notes are not subject to redemption prior to maturity.
Security and Source of Payments for the 2003 City Notes:	The 2003 City Notes are a general obligation of the City. Principal and interest on the 2003 City Notes will be payable out of receipts from an irrevocable ad-valorem tax levied on all taxable property within the City.
No Bond Insurance:	Payment of the principal and interest on the 2003 City Notes is <u>not</u> insured by any financial guaranty insurance policy.
Form of the 2003 City Notes:	The 2003 City Notes will be in fully registered form and will be issued in denominations of \$5,000 Maturity Amount or any integral multiple thereof.
City Purchase:	The City will purchase all of the 2003 City Notes. The 2003 City Notes are not being offered for sale to the public.

SUMMARY OF SELECTED INFORMATION -- 2003 RACM BONDS

This Summary of Selected Information is subject in all respects to the more complete information contained in this Official Statement, and the offering of the Redevelopment Authority of the City of Milwaukee, Wisconsin Taxable Pension Funding Bonds, 2003 Series C and 2003 Series D (collectively, the "2003 RACM Bonds") referred to herein to potential purchasers is made only by means of the entire Official Statement.

**Redevelopment Authority of
the City of Milwaukee, Wisconsin:**

The Redevelopment Authority of the City of Milwaukee, Wisconsin ("RACM") is a redevelopment authority created by the City of Milwaukee, Wisconsin (the "City") pursuant to section 66.1333 of the Wisconsin Statutes (the "Act").

Milwaukee Public Schools:

The Milwaukee Board of School Directors which operates the Milwaukee Public Schools ("MPS") was established on February 3, 1846 and operates under Chapter 119 of the Wisconsin Statutes. MPS provides elementary, secondary, vocational and special education services for grades K through 12 to residents of the City.

Purpose of the Issue:

The 2003 RACM Bonds are being issued to provide funds to allow MPS to retire its unfunded actuarial accrued liability (the "UAAL") currently owed to the Wisconsin Retirement System ("WRS") with respect to retirement benefits for MPS employees. As of the date of closing, the UAAL is projected to be \$165,505,295.70. The proceeds from the sale of the 2003 RACM Bonds will be used to (i) make a loan to MPS pursuant to the Loan Agreement dated as of December 1, 2003 (the "Loan Agreement") among RACM, the City and MPS (and MPS will use the loan proceeds to pay, in part, the UAAL owed to WRS) and (ii) pay certain costs associated with the issuance of the 2003 RACM Bonds. See "PLAN OF FINANCING."

Series:

The 2003 RACM Bonds will be issued in the following series:

\$15,719,121.70 Series 2003 C (RACM Capital Appreciation Bonds)
\$130,850,000.00 Series 2003 D (Auction Rate Securities)

Maturities and Interest Rates:

See the Maturity Schedule on the page following the inside cover page for information concerning the maturity dates and interest rates of the 2003 RACM Bonds. The RACM Capital Appreciation Bonds will accrete in value from the Date of Issuance at the Accreted Value Rates set forth on the inside cover page, compounded semi-annually at such rate on April 1 and October 1 of each year, commencing April 1, 2004, to the maturity thereof. No payments will be made on the RACM

Capital Appreciation Bonds prior to their maturity. Interest on the Auction Rate Securities will accrue at an initial rate of 1.20% per annum to and including January 28, 2004 and thereafter at the Applicable Auction Rates until the Fixed Rate Conversion Date for such Auction Rate Securities. Interest on the Auction Rate Securities is payable on each Auction Date. See "THE 2003 RACM BONDS" herein.

Redemption:

The RACM Capital Appreciation Bonds are not subject to optional redemption prior to maturity. The Auction Rate Securities are subject to optional redemption prior to maturity. See "THE 2003 RACM BONDS—Auction Rate Securities—*Optional Redemption*" herein. The Auction Rate Securities are subject to mandatory sinking fund redemption prior to maturity. See "THE 2003 RACM BONDS—Auction Rate Securities—*Mandatory Sinking Fund Redemption*" herein.

**Security and Source of
Payments for the 2003
RACM Bonds:**

The 2003 RACM Bonds are special, limited obligations of RACM payable solely from the Revenues. **The 2003 RACM Bonds do not constitute a debt or indebtedness of the City, MPS, the State of Wisconsin or any political subdivision thereof and are not a charge against their general credit or taxing power. RACM has no taxing power.**

The 2003 RACM Bonds will be issued under a Trust Indenture dated as of December 1, 2003 (the "Trust Indenture") between RACM and Deutsche Bank National Trust Company, as trustee (the "Trustee"), and are secured by (a) all cash and securities held in the Trust Funds and the investment earnings thereon (b) all payments made under the Loan Agreement and the Note issued by the City, on behalf of MPS, pursuant to the Loan Agreement (the "MPS Note"). The City's and MPS' obligations under the Loan Agreement and MPS Note are payable solely from moneys in the School Operations Fund held by the City. In the Loan Agreement, MPS has irrevocably directed the City to use monies in the School Operations Fund to make the payments required to be made pursuant to the Loan Agreement and the MPS Note even if MPS has not appropriated funds to make such payments in its annual budget. MPS has pledged certain State Aid payments received by MPS from the State of Wisconsin to secure the payment of debt service under the Loan Agreement and the MPS Note. See "SECURITY AND SOURCE OF PAYMENT FOR THE 2003 RACM BONDS" herein.

Bond Insurance:

Payment of principal of and interest on the 2003 RACM Bonds when due will be insured by a financial guaranty insurance policy to be issued concurrently with the delivery of the 2003 RACM Bonds by MBIA Insurance Corporation (the "Bond Insurer"). See "BOND INSURANCE" and APPENDIX G—"FORM OF BOND INSURANCE POLICY."

Certain Risk Factors:

An investment in the 2003 RACM Bonds involves certain risks. Investors must read this entire Official Statement to obtain information essential in making an informed investment decision. See "RISK FACTORS" for a discussion of factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the 2003 RACM Bonds.

Form of the 2003 RACM Bonds:

The 2003 RACM Bonds will be in fully registered form and will be issued in denominations of (i) \$5,000 Maturity Amount or any integral multiple thereof with respect to the RACM Capital Appreciation Bonds and (ii) \$25,000 or any integral multiple thereof with respect to the Auction Rate Securities. The 2003 RACM Bonds will initially be issued in book-entry form and will be registered in the name of Cede & Co., as registered owner and nominee of DTC. See APPENDIX F "BOOK-ENTRY SYSTEM."

This Page Has Been Intentionally Left Blank

OFFICIAL STATEMENT

CITY OF MILWAUKEE, WISCONSIN TAXABLE GENERAL OBLIGATION PROMISSORY NOTES \$21,482,013.50 2003 Series M10

and

REDEVELOPMENT AUTHORITY OF THE CITY OF MILWAUKEE, WISCONSIN TAXABLE PENSION FUNDING BONDS (MILWAUKEE PUBLIC SCHOOLS) \$15,719,121.70 2003 Series C (RACM Capital Appreciation Bonds) \$130,850,000.00 2003 Series D (Auction Rate Securities)

INTRODUCTION

This Official Statement, which includes the cover page and appendices hereto (the "Official Statement"), provides certain information concerning the issuance, sale and delivery of (a) the City of Milwaukee, Wisconsin Taxable General Obligation Promissory Notes, in an aggregate principal amount of \$21,482,013.50 (the "2003 City Notes"); and (b) the Redevelopment Authority of the City of Milwaukee, Wisconsin Taxable Pension Funding Bonds, in an aggregate principal amount of \$146,569,121.70 (the "2003 RACM Bonds") comprised of two series: \$15,179,121.70 in aggregate principal amount of 2003 Series C (the "RACM Capital Appreciation Bonds"); and \$130,850,000.00 in aggregate principal amount of 2003 Series D (the "Auction Rate Securities"). In this Official Statement the term "2003 Securities" refers to both the 2003 City Notes and the 2003 RACM Bonds.

The 2003 City Notes will be purchased by the City of Milwaukee, Wisconsin (the "City") and are not being offered to the general public. The Underwriters make no representation as to the accuracy or completeness of the information contained in this Official Statement regarding the City or the 2003 City Notes and potential purchasers of the 2003 RACM Bonds should not rely upon the information regarding the City or the 2003 City Notes contained in this Official Statement in making an investment decision regarding the 2003 RACM Bonds. Information with respect to the City and the 2003 City Notes is included in this Official Statement solely to provide potential purchasers of the 2003 RACM Bonds with information on the overall financing being accomplished with the proceeds of the 2003 City Notes and the 2003 RACM Bonds.

For definitions of certain words and terms used but not otherwise defined herein, see APPENDIX E-"DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE PRINCIPAL BOND DOCUMENTS-DEFINITIONS OF CERTAIN TERMS."

The Milwaukee Board of School Directors ("MPS") provides elementary, secondary, vocational and special educational services for grades K through 12 to residents of the City. The 2003 Securities are being issued to provide funds to allow MPS to retire its current unfunded actuarial accrued liability (the "UAAL") to the Wisconsin Retirement System ("WRS"). The UAAL is projected to be \$165,505,295.70 as of the date of closing. See "PLAN OF FINANCING." 2003 Wisconsin Act 43 ("Act 43") amended Section 119.498 of the Wisconsin Statutes to authorize the City to issue notes to pay the UAAL. Act 43 also amended Section 66.1333 of the Wisconsin Statutes to authorize the Redevelopment Authority of the City of Milwaukee, Wisconsin ("RACM") to issue bonds and loan the proceeds to MPS to pay the UAAL.

The 2003 City Notes will be issued pursuant to a resolution adopted November 25, 2003 (the "Note Resolution") by the Common Council of the City and a resolution of the Public Debt Commission of the City. The proceeds from the sale of the 2003 City Notes will be used to pay, in part, the UAAL owed by MPS to WRS.

The 2003 RACM Bonds will be issued pursuant to the Trust Indenture dated as of December 1, 2003 (the "Trust Indenture"), by and between RACM and Deutsche Bank National Trust Company, as trustee (the "Trustee"). RACM will loan the 2003 RACM Bond proceeds to MPS pursuant to the Loan Agreement dated as of December 1, 2003 (the "Loan Agreement") among RACM, MPS and the City, as agent of MPS. The City, on behalf of MPS, will issue its Note (the "MPS Note") payable to the order of RACM to evidence such loan. The City is a party to the Loan Agreement and the MPS Note solely in its role as a custodian of MPS' funds and will act thereunder as the agent of MPS and at the direction of MPS in fulfillment of that role. The City, on behalf of MPS, is obligated under the MPS Note to make payments of principal, premium, if any, and interest corresponding to the payments due and payable under the 2003 RACM Bonds from monies in the School Operations Fund held by the City to the extent appropriated by MPS. Repayment of debt service under the Loan Agreement and the MPS Note is secured by a pledge of State Aid payments. See "SECURITY AND SOURCE OF PAYMENT FOR THE 2003 RACM BONDS." The proceeds from the sale of the 2003 RACM Bonds will be used to: (i) make the loan to MPS pursuant to the Loan Agreement (and MPS will use the loan proceeds to pay, in part, the UAAL owed WRS) and (ii) pay certain costs associated with the issuance of the 2003 RACM Bonds.

The 2003 RACM Bonds are special, limited obligations of RACM payable solely from the Revenues. The 2003 RACM Bonds do not constitute a debt or indebtedness of the City, MPS, the State of Wisconsin or any political subdivision thereof and are not a charge against their general credit or taxing power. RACM has no taxing power.

Payment of the principal of and interest on the 2003 RACM Bonds when due will be insured by a financial guaranty insurance policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of the 2003 RACM Bonds. See "BOND INSURANCE" and APPENDIX G—"FORM OF BOND INSURANCE POLICY" herein for more information concerning the financial guaranty insurance policy. Payment of the 2003 City Notes is not supported by any insurance policy.

This Official Statement contains brief descriptions of the City, RACM and MPS, and brief descriptions and summaries of the 2003 Securities, the Note Resolution, the Trust Indenture, the Loan Agreement, the MPS Note and the DPI Agreement. The descriptions and summaries herein do not purport to be comprehensive or definitive and reference is made to each document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each such document. See "MISCELLANEOUS" herein for information regarding availability of the documents.

CITY OF MILWAUKEE WISCONSIN

The City was incorporated on January 31, 1846 pursuant to the laws of the territory of Wisconsin. The City, operating under a Home Rule Charter since 1847, has a council-mayor form of government. The City is Wisconsin's largest city with a population of 587,800 and is the principal trade, service and financial center of southeastern Wisconsin. See APPENDIX A for a more detailed description of the City. APPENDIX B contains the City's audited financial statements for the year ended December 31, 2002.

REDEVELOPMENT AUTHORITY OF THE CITY OF MILWAUKEE

RACM is a redevelopment authority created by the City pursuant to section 66.1333, Wisconsin Statutes. RACM is authorized to issue the 2003 RACM Bonds and loan the proceeds to MPS.

MILWAUKEE PUBLIC SCHOOLS

MPS was established on February 3, 1846 and operates under Chapter 119 of the Wisconsin Statutes. MPS provides elementary, secondary, vocational and special education services for grades K through 12. MPS' boundaries are coterminous with those of the City. MPS is effectively treated under the Wisconsin Statutes as a City department authorized by law to adopt its own budget. The City is required to levy and collect property taxes to support the MPS budget. All funds for MPS flow through the City Treasurer who, as the custodian of

such funds by statute, disburses them at the direction of the Superintendent/Auditing Officer of MPS. The City Comptroller, City Treasurer and City Attorney perform their respective functions for MPS as well as the City. See APPENDIX C for a more detailed description of MPS. APPENDIX D contains the audited financial statements of MPS for the fiscal year ended June 30, 2002.

PLAN OF FINANCING

General

The 2003 Securities are being issued to provide funds to MPS to retire its UAAL to the WRS.

In 1982 the State of Wisconsin (the "State") merged three retirement systems, one of which covered teachers employed by MPS, into the WRS. At the time of the merger, MPS was assessed an approximately \$66 million UAAL. WRS assesses MPS a supplemental contribution requirement in the amount of 2% of covered payroll and applies that contribution against the balance of the UAAL. The 2% supplemental assessment continues until the balance is fully paid and the UAAL accrues interest at a rate that was last assessed by WRS at 8% per year. The original UAAL was estimated to be repaid in 40 years. Due to actual results being different from the original assumptions and additional assessments, the UAAL increased to \$172,217,595 as of December 31, 2002.

On August 11, 2003 Act 43 was enacted to provide financing options to MPS with respect to the payment of the UAAL. Act 43 amended Section 119.498 of the Wisconsin Statutes to authorize the City, upon the request of MPS, to issue general obligation notes under Section 66.12(12) of the Wisconsin Statutes for the purpose of paying the UAAL. Act 43 also amended Section 66.1333 of the Wisconsin Statutes to permit RACM to issue up to \$200,000,000 of bonds having a maturity of up to 40 years to finance the payment of the UAAL if MPS adopts a resolution requesting the issuance of such bonds. Act 43 created Section 119.499 of the Wisconsin Statutes which provides that MPS may not request RACM to issue such bonds and may not request the City to issue such notes unless MPS develops information on both options and chooses the option which is in the best public interest. Section 119.499 also permits MPS to (a) use any school district revenues to repay the loan to be made by RACM to MPS with the proceeds of the 2003 RACM Bonds, (b) irrevocably request the City to remit designated revenues of MPS to RACM and (c) if MPS decides to use State Aid to repay the loan, request the Wisconsin Department of Administration to remit State Aid payments to RACM in an annual amount agreed to by MPS and the Wisconsin Department of Administration.

MPS developed information on its financing options and in a resolution adopted by MPS on November 20, 2003 (the "MPS Resolution") determined to request both the issuance of the 2003 City Notes by the City and the 2003 RACM Bonds by RACM. MPS further determined, in the MPS Resolution, to pledge State Aid as security for its obligations under the Loan Agreement and the MPS Note.

On November 25, 2003, the Common Council of the City adopted the resolution under which the 2003 City Notes will be issued (the "Note Resolution"). The commissioners of RACM adopted a resolution on November 20, 2003 authorizing the issuance of the 2003 RACM Bonds and the execution and delivery of the Trust Indenture and the Loan Agreement.

After payment of costs of issuance, the proceeds of the 2003 Securities, together with payments previously made by MPS to WRS during 2003 and funds of MPS to be provided at closing, will be sufficient to fully retire the UAAL.

In connection with the issuance of the Auction Rate Securities, the City on behalf of MPS will enter into one or more interest rate swap agreements (collectively, the "Swap Agreement") which will have the effect of causing MPS to pay a fixed rate of interest on the portion of the outstanding principal balance of the MPS Note equal to the outstanding principal balance of the Auction Rate Securities. The Loan Agreement requires the City on behalf of MPS to make the periodic interest payments under the Swap Agreement (the "Swap Payments") to

the Trustee. In the Loan Agreement, MPS has pledged State Aid to secure its obligation to make debt service payments, including Swap Payments.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the 2003 Securities are estimated to be applied as set forth in the following table:

Sources of Funds:	2003 City Notes	2003 RACM Bonds	Total
Par Amount	\$21,482,013.50	\$146,569,121.70	\$168,051,135.20
Deposit by MPS			5,500,000.00
TOTAL			\$173,551,135.20

Uses of Funds:	
Payment of UAAL ⁽¹⁾	\$165,505,295.70
Deposit to Interest Account	5,957,037.55
Costs of Issuance ⁽²⁾	1,603,525.25
Underwriters' Discount	485,276.70
TOTAL	\$173,551,135.20

(1) See "PLAN OF FINANCING."

(2) Includes fees of Bond Counsel and the Financial Advisor, other fees relating to the credit ratings, printing, accounting, bond insurance premium and other costs of issuance.

SECURITY AND SOURCE OF PAYMENT FOR THE 2003 RACM BONDS

The 2003 RACM Bonds will be issued as special, limited obligations of RACM under Section 66.1333, Wisconsin Statutes, payable solely from the Revenues (as defined below), and shall not constitute a general obligation of the City or any other political subdivision of the State or a charge upon the general fund of the City and the full faith and credit of the City are not pledged to the payment of the principal and interest on the 2003 RACM Bonds. No Owners of 2003 RACM Bonds shall have the right to compel any exercise of the taxing power of the City to pay principal of the Bonds or the interest thereon. The 2003 RACM Bonds are not secured directly or indirectly by the full faith and credit or the general credit of the City or any other political subdivision of the State or by any revenues or taxes of the City or any other political subdivision of the State other than the payments to be made by the City on behalf of MSBD pursuant to the Loan Agreement and the MPS Note.

The Indenture provides that the 2003 RACM Bonds are secured by the Revenues which is defined as follows:

"Revenues" shall mean (a) all monies and investment securities in the School Operations Fund established and maintained by the Borrower in accordance with Section 119.46, Wisconsin Statutes, as the same may be amended or renumbered from time to time, or any similar fund or account hereafter established by the Borrower, but only to the extent monies therein have been appropriated by the Milwaukee Board of School Directors for Payments, (b) State Aid, (c) any payments made by the City from the School Operations Fund pursuant to Section 4.3(c)(iii) of the Loan Agreement and the second sentence of the first paragraph of Section 4.3(d) of the Loan Agreement, (d) earnings on the investments held by the Trustee in trust funds established under the Indenture and (e) any other income, revenues and monies delivered by RACM under the Loan Agreement and the MPS Note. The term "Revenues" shall not include monies received as proceeds for the sale of the 2003 RACM Bonds or from the sale of any other bonds, notes or evidences of indebtedness.

The School Operations Fund is established by Section 119.46, Wisconsin Statutes, and is held by the City on behalf of MPS. Revenues from the local property tax, state aid payments and federal school aid payments are

deposited into the School Operations Fund. See APPENDIX C—"MILWAUKEE PUBLIC SCHOOLS—REVENUES OF MILWAUKEE PUBLIC SCHOOLS." The Loan Agreement requires the City, on behalf of MPS, to make payments from the School Operations Fund to the Trustee for deposit into the Bond Fund established under the Trust Indenture to the extent appropriated by MPS so that by January 1 of each year an amount equal to the Loan Payments and the Swap Payments due for the period from the following April 1 through the following September 30 is on deposit with the Trustee and so that by August 1 of each year an amount equal to the Loan Payments and Swap Payments for the period from the following October 1 through March 31 is on deposit with the Trustee. See APPENDIX E—"DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE PRINCIPAL BOND DOCUMENTS—SUMMARY OF THE PRINCIPAL BOND DOCUMENTS—THE LOAN AGREEMENT—TERMS OF THE LOAN AND PAYMENTS".

In the Loan Agreement, MPS has irrevocably directed the City to use monies in the School Operations Fund to make the payments required to be made pursuant to the Loan Agreement and the MPS Note even if MPS has not appropriated funds to make such payments in its annual budget. On the sixth Business Day preceding an Interest Payment Date the Trustee shall calculate the amount of Loan Payments and Swap Payments due on such Interest Payment Date and shall also calculate the amount of money available in the Interest Account of the Bond Fund to make such Loan Payments and Swap Payments when due. In the event the Trustee determines that there is a deficiency in the Interest Account of the Bond Fund, the Trustee shall advise MPS and the City thereof and MPS directs the City to pay to the Trustee from the School Operations Fund, from monies deposited therein, on or before the third Business Day preceding the Interest Payment Date, an amount equal to such deficiency for deposit in the Interest Account of the Bond Fund.

If the required amount is not on deposit with the Trustee on certain specified dates, the Trustee will have access to "State Aid" to fund any shortfall.

"State Aid" means the general school aids paid by the State to MPS pursuant to subchapter II of Chapter 121, Wisconsin Statutes, as the same may be amended or renumbered from time to time, or any other payments made directly or indirectly by the State to MPS in partial or full replacement or substitution for the school aid payments now made under subchapter II of Chapter 121, Wisconsin Statutes. The term "State Aid" does not include certain other aids not made under subchapter II such as intradistrict aid paid by the State to the MPS under Section 121.85(6)(a), (am) and (ar), Wisconsin Statutes, as the same may be amended or renumbered from time to time.

MPS receives State Aid payments currently in March, June, July, September and December of each year (each a "State Aid Payment Date"). Such payments are received by the City Treasurer and deposited into the School Operations Fund. The Agreement dated as of December 1, 2003 (the "DPI Agreement") among the State of Wisconsin Department of Administration ("DOA"), acting on behalf of the State, the Department of Public Instruction ("DPI"), RACM, MPS and the Trustee provides that on the day which is 45 days prior to the State Aid Payment Date immediately preceding each April 1 and October 1, the Trustee shall determine whether the required amount is in the Interest Account and the Principal Account of the Bond Fund. If there is a shortfall (a "Deficiency"), the Trustee will notify DOA, DPI, RACM and MPS of the Deficiency no later than 30 days before the applicable State Aid Payment Date. In the DPI Agreement DPI has irrevocably instructed DOA to remit State Aid payments to the Trustee upon receipt of such notice. Accordingly, on the State Aid Payment Date following such a notice from the Trustee, DOA will remit a portion of the State Aid payment equal to the Deficiency to the Trustee for deposit in the Bond Fund.

The following table sets forth the aggregate amount of School Aid received by MPS during its fiscal years ending June 30, 1998-2002:

Fiscal Year Ending June 30	State Aid
1998	\$467,189,255
1999	486,666,416
2000	522,070,078
2001	530,389,369
2002	541,388,517

BOND INSURANCE

Payment of the principal of and interest on the 2003 RACM Bonds will be insured by a financial guaranty insurance policy (the "Bond Insurance Policy") provided by MBIA Insurance Corporation (the "Bond Insurer"). No insurance is being provided with respect to the 2003 City Notes.

The following information concerning the Bond Insurer and the Bond Insurance Policy has been provided by the Bond Insurer for use in this Official Statement. Reference is made to APPENDIX G for a specimen of the Bond Insurance Policy.

The Insurance Policy

The Bond Insurance Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of RACM to the Trustee or its successor with respect to the 2003 RACM Bonds, of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the 2003 RACM Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Bond Insurance Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the 2003 RACM Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Bond Insurance Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any 2003 RACM Bond. The Bond Insurance Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of the 2003 RACM Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Bond Insurance Policy also does not insure against nonpayment of principal of or interest on the 2003 RACM Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the 2003 RACM Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Bond Insurer from the Trustee or any owner of a 2003 RACM Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Bond Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such 2003 RACM Bond or presentment of such

other proof of ownership of the 2003 RACM Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the 2003 RACM Bonds as are paid by the Bond Insurer, and appropriate instruments to effect the appointment of the Bond Insurer as agent for such owners of the 2003 RACM Bonds in any legal proceeding related to payment of insured amounts on the 2003 RACM Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Trustee payment of the insured amounts due on such 2003 RACM Bonds, less any amount held by the Trustee for the payment of such insured amounts on the 2003 RACM Bonds and legally available therefor.

Bond Insurer

The Bond Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against the Bond Insurer. The Bond Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Bond Insurer has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by the Bond Insurer, changes in control and transactions among affiliates. Additionally, the Bond Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA Insurance Corporation (the "Bond Insurer") does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Bond Insurance Policy and the Bond Insurer set forth under the heading "BOND INSURANCE". Additionally, the Bond Insurer makes no representation regarding the 2003 RACM Bonds or the advisability of investing in the 2003 RACM Bonds.

The Financial Guaranty Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Bond Insurer Financial Information

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated herein by reference:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2002; and
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the securities offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2002 and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003) are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington,

D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2002, the Bond Insurer had admitted assets of \$9.2 billion (audited), total liabilities of \$6.0 billion (audited), and total capital and surplus of \$3.2 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2003, the Bond Insurer had admitted assets of \$9.9 billion (unaudited), total liabilities of \$6.4 billion (unaudited), and total capital and surplus of \$3.5 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of the Bond Insurer

Moody's Investors Service, Inc. rates the financial strength of the Bond Insurer "Aaa."

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. rates the financial strength of the Bond Insurer "AAA."

Fitch Ratings rates the financial strength of the Bond Insurer "AAA."

Each rating of the Bond Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Bond Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the 2003 RACM Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the 2003 RACM Bonds. The Bond Insurer does not guaranty the market price of the 2003 RACM Bonds nor does it guaranty that the ratings on the 2003 RACM Bonds will not be revised or withdrawn.

The foregoing information concerning the Bond Insurer and the Bond Insurance Policy has not been independently certified or verified by the City, RACM, MPS or the Underwriters. No representation is made by the City, RACM, MPS or the Underwriters as to the accuracy, completeness or adequacy of such information or as to the absence of material adverse changes in the condition of Bond Insurer subsequent to the date of this Official Statement.

CERTAIN RISK FACTORS

The following information should be considered by potential investors in evaluating the credit quality of the 2003 RACM Bonds. However, it does not purport to be an exhaustive list of the risks or other considerations which may be relevant to an investment in the 2003 RACM Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks. The Underwriters make no representation as to any risks associated with the 2003 City Notes.

Limitation of Remedies

The rights of the Owners of the 2003 RACM Bonds are subject to the limitations on legal remedies against entities and redevelopment authorities in the State, including applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally, now or hereafter in effect, and to the application of general principles of equity, including without limitation, concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or in law. Bankruptcy proceedings, if initiated, could subject the Owners of the 2003 RACM Bonds to judicial discretion and interpretation of their

rights in bankruptcy proceedings or otherwise, and consequently may entail risks of delay, limitation or modification of the rights of Bondowners.

Capital Appreciation Bonds

Capital appreciation bonds, such as the RACM Capital Appreciation Bonds, are subject to greater market volatility than bonds that pay interest semiannually. An investor who purchases a capital appreciation bond and holds it until maturity receives an amount equal to the initial investment plus the interest that has accrued over the life of the bond at a semiannual compounded rate. The investor receives this amount at maturity and, therefore, receives no current income.

An investor who sells a capital appreciation bond prior to maturity at a time when interest rates, generally, are higher than at the time the capital appreciation bond was purchased, may realize a loss on the investment. The brokerage and other costs of selling capital appreciation bonds of small denominations are likely to be significantly higher (as a percent of the principal amount of the bond) than the cost of selling securities of larger denominations. These transactional costs may, in the event of such a sale, significantly reduce or eliminate the investment return to the holder of capital appreciation bonds of small denomination.

The market value of the RACM Capital Appreciation Bonds prior to maturity will not necessarily be equal to their Accreted Value as shown in the table in APPENDIX K. The market value of a RACM Capital Appreciation Bond is determined by a number of factors, including but not limited to, its Accreted Value Rate, yields available on other investments and general market conditions.

In light of the foregoing, the RACM Capital Appreciation Bonds are intended as a long-term investment. Prospective purchasers of the RACM Capital Appreciation Bonds who believe they may have to sell their RACM Capital Appreciation Bonds prior to maturity should consider the market risk associated with such investment. Potential investors are advised to review the suitability of the RACM Capital Appreciation Bonds with their accountant or financial advisor.

Nonappropriation

The obligations of MPS under the Loan Agreement and the MPS Note are subject to annual appropriation by MPS. If MPS fails to appropriate funds to fulfill its payment obligations, the Trustee will not have any legal remedy against MPS for failing to make the required Loan Payments.

In the event of a failure by MPS to appropriate funds for and timely pay the required Loan Payments, the Trustee is required by the provisions of the DPI Agreement to send a notice to the DOA of the Deficiency and DOA shall, out of the next State Aid payment, pay such Deficiency to the Trustee. See "SECURITY AND SOURCE OF PAYMENT FOR THE RACM BONDS" for more information. Such payment by the DOA will be sufficient to pay the debt service payments due on the 2003 RACM Bonds. In addition, in the event of nonappropriation by MPS, the Loan Agreement provides that MPS cannot issue any Parity Debt, including revenue anticipation notes. See "-Parity Debt" below.

State Aid to MPS

MPS receives revenues from the State in the form of general school aids. State school aids are divided into two general categories referred to as general and categorical aids. General school aids are determined by formula based upon pupil membership and property valuation. Categorical aids are based upon specific instructional or supporting programs.

In 1996 the Governor and State Legislature approved reducing funding for schools from property taxes. The State approved increasing the portion of statewide school revenues funded by State equalization aid from 40% to at least 66.7% of all funds' budgets beginning in 1996-97. In 2003 the Governor and State Legislature

determined that the State could no longer afford to target 66.7% funding for school aid. Based on the 2003-05 budget adopted by the State Legislature, MPS expects that State Aid will increase from 51.5% of the MPS budget during the 2002-03 school year to approximately 54% of the MPS budgets for the 2003-04 and 2004-05 school years.

Although the State has a multi-year tradition of providing state aid to local school districts to reduce their reliance on local property taxes, there can be no assurance that the State will not decrease, perhaps materially, the amount of State Aid provided to MPS. Unless offsetting revenue sources are obtained, or expenses reduced, MPS would have to increase its reliance upon the property tax to fund its operations if that were to occur.

School Choice

Under Section 119.23, Wisconsin Statutes, low-income children may attend private schools ("Parental Choice Schools") with the State providing payments to the Parental Choice Schools to defray the costs of providing education to these children. Approximately 10,300 low-income children residing in Milwaukee attended Parental Choice Schools during the 2002-2003 school year. See APPENDIX C—"MILWAUKEE PUBLIC SCHOOLS—Parental Choice Program" for more information. While the amount of State Aid payments is not currently affected by the election of students to attend a Parental Choice School, there can be no assurance that at some future time the School Aid payments will not be reduced to reflect students' attendance at Parental Choice Schools.

Parity Debt

On September 30, 2003 the City issued \$150,000,000 of its Short-Term School Order Notes, Series of 2003 M5 (Revenue Anticipation Notes) (the "2003 RANs") to fund MPS' general operations pending receipt of State Aid. The School Operations Fund was pledged as security for the repayment of the 2003 RANs in the resolution of the City's Common Council adopted on June 24, 2003. That resolution further directed the City Treasurer to establish a segregated account within the School Operations Fund to capture State Aid payments in June 2004 in the principal amount of the 2003 RANs. The 2003 RANs mature on June 30, 2004. **The claim on the School Operations Funds and June 2004 State Aid Payment for the payment of the 2003 RANs is senior to the claim of the Trustee on such monies for the benefit of the 2003 RACM Bonds.** At the time of issuance of the 2003 RACM Bonds, the City on behalf of MPS will deposit the Loan Payment due on January 1, 2004 with the Trustee. This Loan Payment covers debt service due on the 2003 RACM Bonds through September 30, 2004, which is after the maturity of the 2003 RANs.

In prior years the City also issued revenue anticipation notes to fund MPS' operations and anticipates that it will issue revenue anticipation notes in future years for this purpose. Prior issues of revenue anticipation notes were, and the City and MPS anticipate that future issues of such revenue anticipation notes will be, secured by a pledge of the School Operations Fund. Section 67.12(1)(a), Wisconsin Statutes, limits the principal amount of revenue anticipation notes issued during any fiscal year to fund MPS' operations to 60% of Estimated School Operations Fund Revenues for that fiscal year.

Total Amount of Estimated School Operations Fund Revenues For the 2003-04 Fiscal Year	\$937,649,551
Statutory Borrowing Limit (60% of Estimated Revenues)	562,589,731
Principal Amount of 2003 RANs	150,000,000
Unused Amount	412,589,731
Percentage of Borrowing Limit Used	27%
Percentage of Borrowing to Estimated Revenues	16%

The Loan Agreement provides that MPS may grant a lien on the School Operations Fund and State Aid payments to secure future borrowings, including but not limited to future revenue anticipation notes, issued by the City on a parity with the lien benefiting the 2003 RACM Bonds if (a) MPS has, in its most recent budget, appropriated sufficient funds to pay the principal of and interest on the 2003 RACM Bonds and all Swap Payments scheduled to become due during that fiscal year of MPS and (b) the City shall have received (and provided a copy to the Trustee) written evidence from each rating agency which has an outstanding rating in the 2003 RACM Bonds that the rating for any of the 2003 RACM Bonds not covered by the Bond Insurance Policy will not be lowered or withdrawn as a result of the issuance of such parity debt . If MPS has not appropriated sufficient funds to make the principal and interest payments on the 2003 RACM Bonds and all Swap Payments, any lien granted by MPS on the School Operations Fund and State Aid payments for any future borrowing must be junior to the lien in favor of the Trustee which benefits the 2003 RACM Bonds.

CONSTITUTIONAL AND STATUTORY DEBT LIMITATIONS

Article XI, Section 2 of the Wisconsin Constitution limits the debt which may be incurred by any county, city, village, town, school district or other municipal corporation to an allowable percentage of the taxable property located therein. The allowable percentage is generally 5% although if a city is authorized to issue bonds for school purposes, an additional 10% (limited to 2% by statute) is permitted for school purposes only. Article XI, Section 3 of the Wisconsin Constitution requires that any county, city, village, town, school district or other municipal corporation shall, before issuing any debt, provide for a direct annual tax sufficient to pay the interest when it comes due and repay the principal within 20 years.

Limitations on Debt of the City

MPS does not have the authority to issue debt. The City has the general authority under either Chapter 67 or Section 119.49 of the Wisconsin Statutes to incur debt for the benefit of MPS. Section 67.03, Wisconsin Statutes limits direct general obligation borrowing by the City to 5% of the equalized valuation of taxable property in the City. Section 119.49, Wisconsin Statutes, authorizes additional bonding for school purposes only in an amount equal to 2% of the equalized valuation of taxable property in the City. Prior to the enactment of Act 43 , any borrowing under Section 119.49 required referendum approval. Act 43, however, provides that the 2003 City Notes will be applied to the borrowing authorized under Section 119.49 without the need for approval at a referendum and will be subject to the 2% limit of that statute rather than the 5% limit of Section 67.03, Wisconsin Statutes.

All outstanding borrowings by the City for school purposes were issued as general obligation bonds or notes under Chapter 67. See APPENDIX A—"CITY OF MILWAUKEE—Debt Structure" for additional information on prior borrowings by the City for school purposes.

Limitations on Debt of RACM

Section 66.1333, Wisconsin Statutes, as amended by Act 43, permits RACM to issue up to \$200,000,000 of bonds and loan the proceeds to MPS for purposes of funding the payment of the UAAL by MPS to the Wisconsin Retirement System. Such bonds may not have a maturity in excess of 40 years.

THE 2003 RACM BONDS

Terms Applicable to All 2003 RACM Bonds

The 2003 RACM Bonds will each be dated their date of original delivery issued in fully registered form, without coupons, and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the 2003 RACM Bonds. Ownership interests in the 2003 RACM Bonds may be purchased in book-entry form only. Purchasers will not receive securities certificates representing their interests in the 2003 RACM Bonds purchased. Payments of principal of and interest on the 2003 RACM Bonds will be paid by the Trustee to DTC, which is obligated in

turn to remit such principal and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the 2003 RACM Bonds. See APPENDIX F—"BOOK-ENTRY SYSTEM."

Payment of interest on the 2003 RACM Bonds due on or before the maturity or prior redemption thereof shall be made to the person whose name appears in the registration books kept by the Trustee as the registered owner thereof as of the close of business on the Record Date immediately preceding an Interest Payment Date, such interest to be paid by check mailed on the Interest Payment Date by first class mail to such registered owner at the address as it appears in such books except that in the case of an Owner of \$1,000,000 or greater in aggregate principal amount of outstanding 2003 RACM Bonds, such payment shall, at such Owner's written request, provided by such Owner prior to the 15th day of the month preceding such Interest Payment Date, be made by wire transfer of immediately available funds in accordance with written instructions provided by such Owner; any such written request shall remain in effect until rescinded in writing by the Owner or a change in the ownership of such 2003 RACM Bonds as shown on the registration books.

RACM Capital Appreciation Bonds

No payments with respect to the RACM Capital Appreciation Bonds will be made prior to the respective maturity dates thereof. The RACM Capital Appreciation Bonds will be issued in amounts which have an Accreted Value of each such RACM Capital Appreciation Bond on the stated maturity date thereof equal to \$5,000 (the "Maturity Amount") or any integral multiple thereof. The RACM Capital Appreciation Bonds of each maturity will accrete in value from their Date of Issuance at the Accreted Value Rate and will mature on dates, all as indicated on the page following the inside cover page of this Official Statement, compounded semi-annually on April 1 and October 1 of each year, commencing April 1, 2004 until maturity. Such compounding will be calculated on the basis of a 360-day year comprised of twelve 30-day months, and the Accreted Value shall be payable only at maturity. The Accreted Value on any date other than April 1 and October 1 of any year shall be calculated by straight-line interpolation. See APPENDIX K—"TABLE OF ACCRETED VALUES" for the Accreted Values as of each April 1 and October 1 for each Maturity Amount. Such Table of Accreted Values is presented for illustrative purposes only. Any Accreted Value determined in accordance with terms of the Trust Indenture shall control over any different Accreted Value determined by reference to such Table. The RACM Capital Appreciation Bonds are not subject to optional or mandatory redemption prior to maturity.

Auction Rate Securities

General. The Auction Rate Securities will be issued only in fully registered form in denominations of \$25,000 or any integral multiple thereof. The Auction Rate Securities will initially bear interest at a rate of 1.20% to and including January 28, 2004 (the "Initial Auction Rate Period"). Following the end of the Initial Auction Rate Period, Owners shall not be entitled to put or tender their Auction Rate Securities to RACM or any third party liquidity provider and Auctions will be held as described in APPENDIX J—"AUCTION AND SETTLEMENT PROCEDURES."

The Auction Rate Securities shall mature on the dates and in the principal amounts as set forth on the page following the inside cover of this Official Statement. Auction Rate Securities shall bear interest as described under this caption and in APPENDIX J—"AUCTION AND SETTLEMENT PROCEDURES." Interest on the Auction Rate Securities for the Initial Auction Rate Period shall be payable on January 29, 2004. Interest payments on the Auction Rate Securities are to be made by the Trustee to the persons who appear as registered owners on the registration books maintained by the Trustee as bond registrar as of the close of business on the second Business Day immediately preceding each Regular Interest Payment Date for the Auction Rate Securities (the "Regular Record Date").

Optional Redemption. Beginning January 29, 2004, the Auction Rate Securities are subject to redemption at the option of RACM on each Regular Interest Payment Date for the Auction Rate Securities, at a redemption price of 100% of the principal amount thereof plus accrued and unpaid interest with respect thereto, prior to their respective maturities in any order of maturity from any moneys available therefor, in whole or in part in any Authorized Denomination of \$25,000 or any integral multiple thereof. The Auction Rate Securities so redeemed

shall be cancelled and the principal amount thereof shall be applied against the Mandatory Sinking Fund Payments for the Auction Rate Securities as directed by RACM.

Mandatory Sinking Fund Redemption. The Auction Rate Securities are subject to mandatory redemption prior to maturity at a redemption price equal to the principal amount of the Auction Rate Securities to be redeemed, plus accrued interest to the redemption date, and without premium, on April 1 of each year, commencing April 1, 2024, in the principal amounts and on the redemption dates set forth below:

Mandatory Sinking Fund Payment Date (April 1)	Principal Amount
2024	\$6,250,000
2025	6,325,000
2026	6,250,000
2027	6,250,000
2028	6,250,000
2029	6,250,000
2030	6,250,000
2031	6,250,000
2031	6,250,000
2033	6,250,000
2034	6,250,000
2035	6,250,000
2036	6,250,000
2037	6,200,000
2038	6,200,000
2038	6,200,000
2040	6,200,000
2041	6,200,000
2042	6,200,000
2043	6,200,000

The final principal payment on the Auction Rate Securities in the amount of \$6,125,000 is due on the October 1, 2043 maturity date.

The Trustee may purchase Auction Rate Securities to satisfy any, or all, of the next Mandatory Sinking Fund Payment requirement. In addition, RACM may, at any time, present Auction Rate Securities to the Trustee for cancellation and apply the principal amount thereof against the Mandatory Sinking Fund Payment requirement as directed by RACM.

Auction Rate Provisions

General. While any 2003 RACM Bonds are Auction Rate Securities, except as otherwise specifically provided in the Trust Indenture, the provisions of the Trust Indenture and the auction and settlement procedures specified in APPENDIX J shall govern the interest rates per annum and the payment terms of the Auction Rate Securities. For a further description of certain provisions of the Auction Rate Securities, see APPENDIX J—"AUCTION AND SETTLEMENT PROCEDURES."

It is anticipated that Lehman Brothers Inc. will act as the initial Broker-Dealer with respect to the Auction Rate Securities. Deutsche Bank Trust Company Americas will act as the initial Auction Agent with respect to the Auction Rate Securities.

Auctions. Except as otherwise provided in the Trust Indenture, an Auction to determine the Auction Rate for each Auction Rate Period will be held on the Business Day immediately preceding the first day of each Auction Rate Period for the Auction Rate Securities (each an "Auction Date").

The first Auction Date will be January 28, 2004. Thereafter, Auctions will normally be held on every Wednesday if the Auction Rate Securities bear interest on the basis of a 7 Rate Period Days or the fifth Wednesday, as applicable, and each Subsequent Auction Rate Period will normally begin on the following Thursday, unless RACM, with the consent of the Bond Insurer, changes the length of a Subsequent Auction Rate Period by designating it a "Special Auction Rate Period" of not fewer than 28 nor more than 1,820 days and evenly divisible by seven, subject to adjustment as provided in the Trust Indenture, provided that the consent of the Bond Insurer is required for the establishment of any Auction Rate Period that exceeds 35 days. In that event, the Subsequent Auction Rate Period after such Special Auction Rate Period will begin on the first day following the end of the immediately preceding Auction Rate Period and end on the first Business Day following the Auction Date at the end of such Special Auction Rate Period.

Auction Agent Agreement. The Trustee will enter into an Auction Agent Agreement dated as of December 1, 2003 (the "Auction Agent Agreement") with Deutsche Bank Trust Company Americas (together with any successor bank or trust company or other entity entering into a similar agreement with the Trustee, the "Auction Agent") which provides, among other things, that the Auction Agent will follow the Auction Procedures for the purposes of determining the Auction Rate as long as the Auction Rate is to be based on the results of an Auction.

Broker-Dealer Agreements. Each Auction requires the participation of one or more broker-dealers. The Auction Agent will enter into an agreement with Lehman Brothers and may enter into similar agreements (collectively, the "Broker-Dealer Agreements") with one or more additional broker-dealers (collectively, the "Broker-Dealers") selected by RACM. RACM may remove a Broker-Dealer at any time, with the consent of the Bond Insurer, for any breach of its obligations under the Trust Indenture or the Broker-Dealer Agreement.

Interest Rates. The Auction Rate Securities will initially bear interest at 1.20% through January 28, 2004 (computed for the actual number of days elapsed on the basis of a 360-day year). Thereafter, the interest rate will be established pursuant to the Auction Procedures described in APPENDIX J—"AUCTION AND SETTLEMENT PROCEDURES." Interest on Auction Rate Securities will be payable in arrears, commencing on January 29, 2004 (the "Initial Interest Payment Date") and (i) for each Auction Rate Period of 270 days or less, on the next Business Day after an Auction Date or (ii) otherwise, interest shall be payable on the next Business Day after each semi-annual date prior to and including the last day of such Auction Rate Period, commencing with the first semi-annual date after the commencement of the Auction Rate Period, with a semi-annual date being: (1) the date in any year with the same month and day as the last day of such Auction Rate Period; and (2) the date in the month six months prior to, and with the same day as (or the last day of the month for a month without the day) the date in clause (1) (each date referred to above being a "Regular Interest Payment Date" for the Auction Rate Securities). Notwithstanding the foregoing, so long as MBIA Insurance Corporation is the Bond Insurer for the Auction Rate Securities, Regular Interest Payment Dates for such Auction Rate Securities may not occur at intervals of less than 28 days.

The term "Auction Interest Period" means, as to the applicable Auction Rate Securities of a Series, each period during which a specific Auction Rate is in effect, as a result of an Auction, which Auction Interest Period may be a 7-, 14-, 21-, 28- or 35-day period, or such other period as may be designated from time to time by RACM and the Market Agent pursuant to an Auction Period Adjustment, each Auction Interest Period running from, and including, the date on which a new Interest Rate becomes effective with respect to the Auction Rate Securities, including the initial Rate Adjustment Date and, thereafter, the first Business Day following each Rate Determination Date (which, until an Auction Period Adjustment, generally is each fifth Wednesday or the next Business Day if such Wednesday is not a Business Day (a "Rate Adjustment Date")) and ending on, and including, the day immediately preceding the next succeeding Rate Adjustment Date; provided that the initial Auction Rate Period shall be set forth on the page following the inside front cover page of this Official Statement. The length of an Auction Interest Period may be adjusted pursuant to the Trust Indenture.

Applicable Auction Rate. The rate per annum at which interest accrues with respect to the Auction Rate Securities for any Auction Interest Period is referred to as the "Applicable Auction Rate" which cannot exceed the Maximum Auction Rate of 17% per annum. The interest rate for the Auction Rate Securities during the Initial Auction Rate Period will be determined by the Broker-Dealer on or prior to the day preceding the delivery date of the 2003 Securities. Thereafter, the rate of interest for each Subsequent Auction Rate Period shall be equal to the annual rate of interest that results from the implementation of the Auction Procedures described in APPENDIX J—"AUCTION AND SETTLEMENT PROCEDURES," and provided that:

- (i) if a notice of Fixed Rate Conversion of the Auction Rate Securities shall have been given by RACM, with the prior written consent of the Bond Insurer, and in accordance with the Trust Indenture and because of the failure to satisfy one or more of the conditions set forth therein, such conversion shall not have taken effect, the rate of interest for the next succeeding Subsequent Auction Rate Period shall equal the Maximum Auction Rate on the proposed effective Fixed Rate Conversion Date and the length of such Subsequent Auction Rate Period shall be 7 Rate Period Days;
- (ii) if, on any Auction Date, an Auction is not held due to a Catastrophic Event, the rate of interest for the next succeeding subsequent Auction Rate Period shall equal the most recent Auction Rate plus or minus the change in LIBOR since the most recent Auction;
- (iii) if, on any Auction Date, an Auction is not held for any other reason, then the rate of interest for the next Succeeding Auction Rate Period shall equal the Maximum Auction Rate on such Auction Date, and the length of such Subsequent Auction Rate Period shall be 7 Rate Period Days; and
- (iv) if a notice of a change in the length of a Standard Auction Rate Period shall have been given by RACM, with the prior written consent of the Bond Insurer, and in accordance with the Trust Indenture and because of a failure to satisfy the condition set forth therein, such change in length of the Standard Auction Rate Period shall not have taken effect, the rate of interest for the next succeeding Subsequent Auction Rate Period shall equal the Maximum Auction Rate on the proposed date of such change in length of the Standard Auction Rate Period, and the length of such Subsequent Auction Rate Period will be 7 Rate Period Days.

Notwithstanding the foregoing, if: (1) the ownership of the Auction Rate Securities is no longer maintained in book-entry form by DTC or a substitute depository, no further Auctions will be held and the rate of interest for any Subsequent Auction Rate Period commencing after the delivery of certificated securities representing the Auction Rate Securities shall equal the Maximum Auction Rate on the Business Day immediately preceding the first day of such Subsequent Auction Rate Period, and the length of such Subsequent Auction Rate Period shall be 7 Rate Period Days; (2) a Payment Default occurs during any Auction Rate Period (other than an Auction Rate Period consisting of more than 364 Rate Period Days), the rate of interest for each Subsequent Auction Rate Period commencing thereafter to and including the Subsequent Auction Rate Period, if any, during which, or commencing less than two Business Days after all such Payment Defaults are cured, shall equal the Overdue Rate for a Standard Auction Rate Period on the first day of each such Subsequent Auction Rate Period; or (3) a Payment Default occurs during a Special Auction Rate Period consisting of more than 364 Rate Period Days, (i) the rate of interest for the portion of such Special Auction Rate Period during which such Payment Default shall not have been cured shall equal the Overdue Rate for such Special Auction Rate Period on the day of the occurrence of such Payment Default and (ii) if such Payment Default shall have not been cured at least two Business Days prior to the next succeeding Subsequent Auction Rate Period, the rate of interest for such Subsequent Auction Rate Period, the rate of interest for such Subsequent Auction Rate Period and for each Subsequent Auction Rate Period commencing thereafter, to and including the Subsequent Auction Rate Period, if any, during which, or commencing less than two Business Days after, such Payment Default is cured, shall equal the Overdue Rate for such Special Auction Rate Period on the first day of each such Subsequent Auction Rate Period.

Conversion of Auction Rate Securities to Fixed Interest Rates. RACM may, with the written consent of the Bond Insurer and the Qualified Swap Provider (if applicable), convert all but not less than all of the Auction Rate Securities to bonds, which by their terms have been issued in denominations of \$5,000 principal amount or any integral multiple thereof and bear interest at regular fixed rates payable semiannually ("Fixed Rate Bonds") and on such date, which shall be an Interest Payment Date (the "Fixed Rate Conversion Date"), the Auction Rate Securities will be subject to mandatory tender for purchase at a price equal to 100% of the principal amount of such Auction Rate Securities, plus accrued but unpaid interest with respect thereto to, but not including the Fixed Rate Conversion Date, and subject to the availability of funds sufficient to pay the Tender Price of such Auction Rate Securities having been provided to the Trustee through the remarketing of such Auction Rate Securities to new Owners. Not less than 40 days prior to the Fixed Rate Conversion Date, the Trustee is required to mail written notice of the conversion and mandatory tender to the Owners of the Auction Rate Securities setting forth the information required in the Trust Indenture. Upon satisfaction of certain conditions set forth in the Trust Indenture, the Auction Rate Securities shall be purchased or deemed purchased at the Tender Price.

Purchase of Auction Rate Securities

Mandatory Tender for Purchase Upon Conversion to Fixed Interest Rates. Following the Initial Auction Rate Period, the Auction Rate Securities shall be subject to mandatory tender for purchase if at any time the Trustee gives written notice to the Owners of the affected Auction Rate Securities that, at the option of RACM, particular Auction Rate Securities are to be converted to a Fixed Rate subject to the availability of funds sufficient to pay the principal amount thereof, plus accrued interest, if any, to the date of purchase (the "Tender Price") of such Auction Rate Securities having been provided to the Trustee through the remarketing of such Auction Rate Securities.

Notice of Mandatory Tender for Purchase. In connection with any mandatory tender for purchase of any Auction Rate Securities upon conversion to Fixed Interest Rates, the Trustee shall give notice as specified in the Trust Indenture.

Redemption Procedures

Notice of Redemption. Notice of redemption of the Auction Rate Securities shall be given by the Trustee by first-class mail, not less than 30 nor more than 60 days prior to the redemption date to the respective Owners of the Auction Rate Securities designated for redemption at their addresses appearing on the registration books of the Trustee. Notice of redemption of any Auction Rate Securities having Auction Interest Periods of 35 days or more shall not be given more than five days after an Auction Date. In addition, notice of redemption shall be given by the Trustee by registered mail to the Securities Depositories and one or more Information Services. Each notice of redemption shall state the date of such notice, the redemption price, if any, the name and appropriate address of the Trustee, the CUSIP number and ISIN number (if any) of the maturity or maturities, and, if less than all of any such maturity is to be redeemed, the distinctive certificate numbers of the Auction Rate Securities of such maturity, to be redeemed and, in the case of Auction Rate Securities to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Auction Rate Securities the redemption price, if any, thereof and in the case of an Auction Rate Security to be redeemed in part only, the specified portion of the principal amount thereof to be redeemed, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Auction Rate Securities be then surrendered at the address of the Trustee specified in the redemption notice.

All Auction Rate Securities redeemed in whole pursuant to the provisions of the Trust Indenture shall be cancelled by the Trustee and shall not be reissued.

Failure to give notice by mailing to the registered owner of any Auction Rate Securities designated for redemption or tender or to any Information Service shall not affect the validity of the proceedings for the redemption of any other Auction Rate Securities if notice of such redemption shall have been mailed so as to give notice substantially in the manner as provided in the Trust Indenture.

Selection of Auction Rate Securities for Redemption. If less than all Outstanding Auction Rate Securities are to be redeemed at any one time, the Trustee shall select the Auction Rate Securities to be redeemed *pro rata* among Owners and shall promptly notify RACM in writing of the certificate numbers of the Auction Rate Securities so selected for redemption.

For purposes of such selection, Auction Rate Securities shall be deemed to be composed of \$25,000 multiples, and any such multiple may be separately redeemed.

Effect of Redemption. If notice of redemption has been duly given as specified in the Trust Indenture and money for the payment of the redemption price of the Auction Rate Securities called for redemption is held by the Trustee, then on the redemption date designated in such notice the Auction Rate Securities so called for redemption shall become due and payable, and from and after the redemption date so designated interest on such Auction Rate Securities shall cease to accrue, and the Owners of such Auction Rate Securities shall have no rights in respect thereof except to receive payment of the redemption price thereof.

TAX MATTERS

The following is a general summary of the federal income tax consequences of the purchase and ownership of the 2003 RACM Bonds. This discussion is based upon laws, regulations, rulings and decisions now in effect, all of which are subject to change, or possibly differing interpretations. No assurances can be given that future changes in the law will not occur or alter the conclusions reached herein. The discussion below does not purport to deal with federal income tax consequences applicable to all categories of investors. Further, this summary does not discuss all aspects of federal income taxation that may be relevant to a particular investor in the 2003 RACM Bonds in light of the investor's particular personal investment circumstances or to certain types of investors subject to special treatment under federal income tax laws (including insurance companies, tax-exempt organizations, financial institutions, broker-dealers and persons who have hedged the risk of owning the 2003 RACM Bonds). The summary is therefore limited to certain issues relating to initial investors who will hold the 2003 RACM Bonds as "capital assets" within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the "Code"), and acquire such 2003 RACM Bonds for investment and not as a dealer or for resale. Prospective investors in the 2003 RACM Bonds should note that no rulings have been or will be sought from the Internal Revenue Service (the "Service") with respect to any of the federal income tax consequences discussed below, and no assurance can be given that the Service will not take contrary positions.

U.S. Holders

The discussion of federal income tax consequences herein only relates to U.S. Holders of 2003 RACM Bonds. As used herein, the term "U.S. Holder" means a Beneficial Owner of 2003 RACM Bonds that is for Federal income tax purposes one of the following: (i) a citizen or resident of the United States; (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or any State within the United States or the District of Columbia; or (iii) an estate the income of which is subject to the primary jurisdiction of a United States court and which has one or more United States persons who have the authority to control substantial decisions of the trust.

Investors should consult their own tax advisors in determining the federal, state, local and any other tax consequences to them from the purchase, ownership and disposition of the 2003 RACM Bonds.

Federal Income Tax

The stated interest paid on the 2003 RACM Bonds will not be excludable from the gross income, as defined in Section 61 of the Code, of the Beneficial Owners thereof and, in the opinion of Bond Counsel, will be subject to federal income taxation when received or accrued, depending on the tax accounting method applicable to such Beneficial Owners.

State of Wisconsin Income Tax

Section 66.1333, Wisconsin Statutes, provides that bonds issued by RACM for the purposes stated therein together with interest thereon and income therefrom shall be exempt from Wisconsin taxes. No opinion is expressed as to exemption from Wisconsin franchise, estate or inheritance taxes.

Original Issue Discount

If a substantial amount of the 2003 RACM Bonds are purchased at original issuance for a purchase price (the "Issue Price") that is less than their face amount by more than one-quarter of one percent times the number of complete years to maturity (including the RACM Capital Appreciation Bonds (collectively, the "Discounted RACM Bonds")), the Discounted RACM Bonds will be treated as being issued with "original issue discount." The amount of the original issue discount will equal the excess of the principal amount payable on the Discounted RACM Bonds at maturity over their Issue Price, and the amount of the original issue discount on the Discounted RACM Bonds will be amortized over the life of the Discounted RACM Bonds using the "constant yield method" provided in the Treasury Regulations promulgated under the Code. As the original issue discount accrues under the constant yield method, the Beneficial Owners of the Discounted RACM Bonds, regardless of their regular method of accounting, will be required to include such accrued amounts in their gross income as interest. This can result in taxable income to the Beneficial Owners of the Discounted RACM Bonds that exceeds actual cash distributions to such Beneficial Owners in a tax year. Moreover, accrued original issue discount may result in alternative minimum tax liability to some Beneficial Owners even if such Owners have not received a corresponding cash payment.

The Trustee will annually report to the Service and to the Beneficial Owners information regarding the amount of the original issue discount that accrues on the Discounted RACM Bonds each tax year. The portion of the original issue discount included in each Beneficial Owner's gross income while such Beneficial Owner holds the Discounted RACM Bonds will increase the adjusted tax basis of the Discounted RACM Bonds in the hands of such Beneficial Owner.

Owners of Discounted RACM Bonds should consult their own tax advisors with respect to the treatment of original issue discount for federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding and disposing of Discounted RACM Bonds.

Bond Premium

In general, if a Beneficial Owner acquires the 2003 RACM Bonds for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the 2003 RACM Bonds after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on those 2003 RACM Bonds ("2003 Premium RACM Bonds"). In general, an owner of 2003 Premium RACM Bonds may elect to amortize the bond premium in accordance with Section 171 of the Code.

Owners of 2003 Premium RACM Bonds should consult their own tax advisors with respect to the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding and disposing of 2003 Premium RACM Bonds.

Disposition of 2003 RACM Bonds and Market Discount

A Beneficial Owner of 2003 RACM Bonds will recognize gain or loss on the redemption, sale or exchange of a 2003 RACM Bond equal to the difference between the amount realized (exclusive of the amount paid by RACM for accrued interest, if any) and the Beneficial Owner's adjusted tax basis in the 2003 RACM Bonds. Generally, the Beneficial Owner's adjusted tax basis in the 2003 RACM Bonds will be the Beneficial Owner's initial cost, increased by any original issue discount previously included in the Beneficial Owner's income to the date of disposition, decreased by any bond premium previously amortized and by any payments

previously received on the 2003 RACM Bonds besides qualified stated interest. Any gain or loss generally will be capital gain or loss and will be long-term or short-term, depending on the Beneficial Owner's holding period for the 2003 RACM Bonds.

Under current law, a purchaser of a 2003 RACM Bond who did not purchase the 2003 RACM Bond in the initial public offering (a "subsequent purchaser") generally will be required, on the disposition of the 2003 RACM Bond, to recognize as ordinary income the gain, if any, to the extent of the accrued "market discount." Market discount is the amount, if any, by which the price paid for the 2003 RACM Bond by a subsequent purchaser exceeds the stated redemption price of such 2003 RACM Bond at maturity over the basis of such 2003 RACM Bond immediately after the acquisition by the taxpayer. In the case of any 2003 RACM Bond having original issue discount, the stated redemption price shall be equal to its revised issue price. The Code also limits the deductibility of interest incurred by a subsequent purchaser on funds borrowed to acquire a 2003 RACM Bond with market discount. As an alternative to the inclusion of market discount in income upon disposition, a subsequent purchaser may elect to include market discount in income currently as it accrues on all market discount instruments acquired by the subsequent purchaser in that tax year or thereafter, in which case, the interest deferral rule will not apply. The recharacterization of gain as ordinary income on a subsequent disposition of a 2003 RACM Bond could have a material effect on the market value of the 2003 RACM Bonds.

Defeasance

Owners of the 2003 RACM Bonds should be aware that, for federal income tax purposes, the deposit of monies or RACM Bonds in escrow in such amount and manner as to cause the 2003 RACM Bonds to be deemed to be no longer outstanding under the Trust Indenture (a "defeasance"), could result in a deemed exchange under Section 1001 of the Code and a recognition by such owners of taxable income or loss, without any corresponding receipt of monies. In addition, for Federal income tax purposes, the character and timing of receipt of payments on the 2003 RACM Bonds subsequent to any such defeasance could also be affected. Owners of the 2003 RACM Bonds are advised to consult with their own tax advisors regarding the consequences of a defeasance for federal income tax purposes, and for State and local tax purposes.

Backup Withholding

Under Section 3406 of the Code, a Beneficial Owner of the 2003 RACM Bonds who is not a person, as defined in Section 6049(b)(4),(B), (C), (D), (E) or (F) of the Code, may be subject to "backup withholding" on payments of current or accrued interest on the 2003 RACM Bonds. This withholding applies if such Beneficial Owner of 2003 RACM Bonds: (i) fails to furnish to DTC or the DTC Participant such Beneficial Owner's social RACM Bond number or other taxpayer identification number ("TIN"); (ii) furnishes DTC or the DTC Participant an incorrect TIN; (iii) underreports interest, dividends, or other "reportable payments" as defined in the Code; or (iv) under certain circumstances, fails to provide DTC or such Beneficial Owner's DTC Participant with a certified statement, signed under penalty of perjury, that the TIN provided to DTC or the DTC Participant is correct and that such Beneficial Owner is not subject to backup withholding.

Owners of the 2003 RACM Bonds should consult their tax advisors regarding their qualification for exemption from backup withholding and the procedures for obtaining such exemption.

Reporting of Interest Payments

Subject to certain exceptions, interest payments made to Beneficial Owners with respect to the 2003 RACM Bonds will be reported to the Service. Such information will be filed each year with the Service on Form 1099 which will reflect the name, address, and TIN of the Beneficial Owner. A copy of Form 1099 will be sent to each Beneficial Owner of a 2003 RACM Bond for federal income tax purposes.

ERISA CONSIDERATIONS

The discussion herein of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") is general in nature and is not intended to be all-inclusive.

ANY FIDUCIARY OF AN ERISA PLAN, GOVERNMENTAL PLAN OR CHURCH PLAN CONSIDERING AN INVESTMENT IN THE 2003 RACM BONDS SHOULD CONSULT WITH ITS OWN LEGAL ADVISORS WITH RESPECT TO THE CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE 2003 RACM BONDS.

General

A fiduciary of an employee benefit plan subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), should consider the fiduciary standards under ERISA in the context of the particular circumstances of such a plan before authorizing an investment in the 2003 RACM Bonds. ERISA generally imposes on plan fiduciaries general fiduciary requirements, including those of investment prudence and diversification and the requirement that a plan's investments be made in accordance with the documents governing the plan. In addition, section 406 of ERISA and section 4975 of the Internal Revenue Code of 1986, as amended (the "Code") prohibit a broad range of transactions ("Prohibited Transactions") involving assets of a plan subject to ERISA or the assets of an individual retirement account or plan subject to section 4975 of the Code or any entity in which such plan invests whose assets are determined to be "plan assets" (hereinafter an "ERISA Plan") and persons who have specified relationships to the ERISA Plan ("parties in interest," within the meaning of section 3(14) of ERISA, and "disqualified person," within the meaning of section 4975(e)(2) of the Code) unless a statutory, regulatory or administrative exemption is available. Some parties in interest or disqualified persons that participate in a Prohibited Transaction may be subject to an excise tax imposed pursuant to section 4975 of the Code or a penalty imposed pursuant to section 502(i) of ERISA, unless a statutory or administrative exemption is available. These Prohibited Transactions generally are set forth in section 406 of ERISA and section 4975 of the Code.

Governmental plans and certain church plans (as defined under sections 3(32) and 3(33) of ERISA, respectively) are not subject to the Prohibited Transaction rules. Such plans may, however, be subject to federal, state or local laws or regulations which may affect their investment in the 2003 RACM Bonds. Any fiduciary of such a governmental or church plan considering an investment in the 2003 RACM Bonds should determine the need for, and the availability, if necessary, of any exemptive relief under federal, state or local laws or regulations.

Prohibited Transactions

The City, RACM, the Underwriters of the 2003 RACM Bonds, or any of their affiliates may be a party in interest or disqualified person with respect to an ERISA Plan investing in the 2003 RACM Bonds. Therefore, such investment by an ERISA Plan may give rise to a Prohibited Transaction. Consequently, before investing in the 2003 RACM Bonds, any person who is, or who is acquiring the RACM Bonds for, or on behalf of, an ERISA Plan should determine either that the City, RACM, the Underwriters or any of their affiliates is not a party in interest or disqualified person with respect to the ERISA Plan or that a statutory, regulatory or an administrative exemption from the Prohibited Transaction rules discussed below or otherwise available is applicable to the investment in the 2003 RACM Bonds or that the investment in, or acquisition of, the 2003 RACM Bonds will not result in a Prohibited Transaction.

The statutory or administrative exemptions from the Prohibited Transaction rules under ERISA and the Code which may be available to an ERISA Plan, which is investing in the 2003 RACM Bonds, include, but may not be limited to:

- Prohibited Transaction Class Exemption ("PTCE") 90-1, regarding investments by insurance company pooled separate accounts;

- PTCE 91-38, regarding investments by bank collective investment funds;
- PTCE 84-14, regarding transactions effected by qualified professional asset managers;
- PTCE 96-23, regarding transactions effected by in-house managers; and
- PTCE 95-60, regarding investments by insurance company general accounts

The above are collectively referred to as the "ERISA Investor Exemptions."

The 2003 RACM Bonds may not be acquired by any person who is, or who in acquiring the 2003 RACM Bonds is using the assets of, an ERISA Plan unless one of the ERISA Investor Exemptions or another applicable exemption is available to the ERISA Plan. The acquisition of the 2003 RACM Bonds by any person or entity who is, or who in acquiring the 2003 RACM Bonds is using the assets of, an ERISA Plan shall be deemed to constitute a representation by such person or entity either that the City, RACM, the Underwriter of the 2003 RACM Bonds, or any of their affiliates is not a party in interest or disqualified person with respect to the ERISA Plan or that such person or entity is eligible for exemptive relief available pursuant to either the ERISA Investor Exemptions or another applicable exemption with respect to the acquisition and holding of the 2003 RACM Bonds.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with SEC Rule 15c2-12 promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934 (the "Rule"), the City covenanted in the Note Resolution to enter into an undertaking (the "City Undertaking") and MPS covenanted in the MPS Resolution to enter into an undertaking (the "MPS Undertaking"), for the benefit of the Owners to provide notices of the occurrence of certain events enumerated in the Rule to certain information repositories or the Municipal Securities Rulemaking Board and to any state information depository. The detail and terms of the City Undertaking and the MPS Undertaking, as well as the information to be contained in the notices of material events, are set forth in the Continuing Disclosure Certificate to be executed and delivered by the City and MPS at the time the 2003 RACM Bonds are delivered in substantially the form attached hereto as APPENDIX I. Neither the City nor MPS has ever failed to comply in all material respects with any previous undertakings under the Rule to provide annual reports or notices of material events. A failure by the City or MPS to comply with the City Undertaking or the MPS Undertaking, respectively, will not constitute an event of default under the Trust Indenture (although the Owners will have the right to obtain specific performance of the obligations under the City Undertaking and the MPS Undertaking). Nevertheless, such a failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the 2003 RACM Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the 2003 RACM Bonds and their market price.

LEGAL MATTERS

Legal matters incident to the delivery of the 2003 RACM Bonds are subject to the approving opinion of Hawkins, Delafield & Wood and Quarles & Brady LLP, Bond Counsel. Certain matters will be passed upon for the City, MPS and RACM by the City Attorney and for the Underwriters by their counsel, Reinhart Boerner Van Deuren s.c. Bond Counsel and Underwriters' counsel will receive compensation that is contingent upon the sale and delivery of the 2003 RACM Bonds.

NO LITIGATION

There is no action, suit or proceeding pending or, to the knowledge of the City, RACM or MPS, threatened relating to the issuance of the 2003 RACM Bonds, the execution and delivery of the Trust Indenture or

in any way contesting or affecting the validity of any of the foregoing or any proceedings of the City, RACM or MPS taken with respect to the foregoing.

RATINGS

Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), Moody's Investors Service, Inc. ("Moody's") and Fitch Ratings ("Fitch") have given the 2003 RACM Bonds a rating of "AAA", "Aaa" and "AAA," respectively, with the understanding that upon issuance of the 2003 RACM Bonds, the Bond Insurance Policy will be issued by the Bond Insurer. See "BOND INSURANCE" and APPENDIX G—"FORM OF BOND INSURANCE POLICY." The 2003 RACM Bonds have received underlying ratings of "A+," "A1" and "AA" respectively from S&P, Moody's and Fitch. Any explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. The City furnished to such rating agencies certain information and materials concerning the 2003 RACM Bonds and the City. Generally, rating agencies base their ratings on such information and materials and on investigations, studies and assumptions made by the rating agencies themselves. There is no assurance that any rating assigned to the 2003 RACM Bonds by a rating agency will be maintained for any given period of time or that it will not be lowered or withdrawn entirely by such rating agency if in its judgment circumstances so warrant. Neither the City, RACM nor the Underwriters have undertaken any responsibility either to bring to the attention of the owners of the 2003 RACM Bonds any proposed change in or withdrawal of such rating or to oppose any such proposed revision or withdrawal. Any downward revision or withdrawal of such rating may have an adverse effect on the market price or marketability of the 2003 RACM Bonds.

FINANCIAL ADVISOR

The City has retained Robert W. Baird & Co., Milwaukee, Wisconsin, as Financial Advisor in connection with the authorization and delivery of the 2003 Securities. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. The Financial Advisor will receive compensation that is contingent upon the sale, issuance and delivery of the 2003 Securities.

UNDERWRITING

The 2003 RACM Bonds are being purchased by the Underwriters, for which Lehman Brothers Inc. and Citigroup Global Markets, Inc. are acting as the co-senior managers. The Underwriters have agreed to purchase the 2003 RACM Bonds at an aggregate purchase price, exclusive of accrued interest, of \$146,083,845.00 which represents the par amount of the 2003 RACM Bonds, less an underwriting discount of \$485,276.70. The purchase agreement relating to the 2003 RACM Bonds provides that the Underwriters will purchase all of the 2003 RACM Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in said purchase agreement, the approval of certain legal matters by counsel and certain other conditions.

The 2003 RACM Bonds may be offered and sold to certain dealers and others at prices lower than the offering prices stated on the inside cover hereof. The offering prices may be changed from time to time.

The 2003 City Notes will be purchased by the City and are not being offered to potential purchasers. The Underwriters make no representation as to the accuracy or completeness of the information contained in this Official Statement regarding the City or the 2003 City Notes and potential purchasers of the 2003 RACM Bonds should not rely upon the information regarding the City or the 2003 City Notes contained in this Official Statement in making an investment decision regarding the 2003 RACM Bonds.

MISCELLANEOUS

The foregoing and subsequent summaries or descriptions of provisions of the 2003 Securities, the Note Resolution, the Trust Indenture, the Loan Agreement, the MPS Note and the DPI Agreement and all references to

other materials not purporting to be quoted in full, are only brief outlines of some of the provisions thereof. Reference is made to said documents for full and complete statements of the provisions of such documents. The appendices attached hereto are a part of this Official Statement.

Copies, in reasonable quantity, of the Note Resolution, the Trust Indenture, the Loan Agreement, the MPS Note and the DPI Agreement may be obtained from the Underwriters during the offering period and thereafter upon request to the City Comptroller.

W. Martin Morics, City Comptroller and Secretary
City of Milwaukee, Public Dept Commission
Room 1017, Zeidler Municipal Building
841 North Broadway
Milwaukee, Wisconsin 53202
414-286-2301

The execution and delivery of this Official Statement has been duly authorized by the City, RACM and MPS.

CITY OF MILWAUKEE, WISCONSIN

BY/s/ W. Martin Morics
Its Comptroller

REDEVELOPMENT AUTHORITY OF THE CITY OF
MILWAUKEE, WISCONSIN

By/s/ Tom D. Mellencamp
Its Chair

MILWAUKEE BOARD OF SCHOOL DIRECTORS

BY/s/ Jeff Spence
Its President

APPENDIX A

CITY OF MILWAUKEE, WISCONSIN

LOCATION, ORGANIZATION AND GOVERNMENT

GENERAL

The City of Milwaukee, Wisconsin (the "City") is located on the western shore of Lake Michigan in southeastern Wisconsin. The City is the hub of the metropolitan area and a thriving place to live and work. Milwaukee is Wisconsin's largest city with a population of 587,800 and is the principal trade, service and financial center of southeastern Wisconsin. The surrounding Standard Consolidated Metropolitan Statistical Area (SCMSA) consisting of Milwaukee, Waukesha, Washington, Ozaukee, and Racine Counties, has a population of over 1.6 million. This SCMSA is the 24th largest metropolitan area in the United States.

The Port of Milwaukee provides access to the sea lanes of the world. General Mitchell International Airport is served by domestic and international airlines. Five rail lines serve the City and provide transportation links throughout the United States. The City is also connected with the interstate highway system.

Milwaukee was incorporated as a city on January 31, 1846 pursuant to the laws of the territory of Wisconsin. Wisconsin gained statehood in 1848. The City, operating under a Home Rule Charter since 1874, has a council-mayor form of government.

ELECTED OFFICIALS

The Mayor, City Attorney, Comptroller, Treasurer and Common Council members are elected officials of the City. Local elections are non-partisan. The Mayor, City Attorney, Comptroller and Treasurer are elected at-large for identical four-year terms.

At present, the Common Council represents seventeen Aldermanic districts. Each Alderperson represents, and is elected from, an aldermanic district with a population of approximately 35,000. As of April, 2004, the number of Aldermanic Districts will be reduced to 15.

CITY OFFICIALS

(initial year in office follows name)

Mayor	John O. Norquist ⁽¹⁾	(1988)
City Attorney	Grant F. Langley	(1984)
City Comptroller	W. Martin Morics	(1992)
City Treasurer	Wayne F. Whittow	(1976)

COMMON COUNCIL

Marvin E. Pratt	(1987)	Joseph A. Dudzik	(2002)
Joe Davis, Sr.	(2003)	Angel Sanchez	(2000)
Michael S. D'Amato	(1996)	Terry L. Witkowski	(2003)
James A. Bohl, Jr.	(2000)	Suzanne M. Breier	(1992)
Marlene E. Johnson-Odom	(1980)	Thomas G. Nardelli	(1986)
Fredrick G. Gordon	(1992)	Michael J. Murphy	(1989)
Robert G. Donovan	(2000)	Willie L. Hines, Jr.	(1996)
Donald F. Richards	(1988)	Vacant ⁽²⁾	
Willie Wade	(2003)		

The terms of all the above elected positions expire in April, 2004.

⁽¹⁾Mayor Norquist has announced his resignation effective January 1, 2004. Upon his resignation, the President of the Common Council, Alderman Pratt, would serve as acting Mayor. The currently scheduled regular election in April 2004 would fill the vacant position.

⁽²⁾Vacant as of September 26, 2003

PUBLIC SERVICES AND FACILITIES

The City, employing approximately 7,550 people (some in a seasonal capacity), is charged with primary responsibility for public safety (via its police, fire and health departments); public works (including refuse removal and a City owned water utility); various cultural and recreational services including a library system; and, general municipal administration. City government also participates in housing and neighborhood programs through separate housing and redevelopment authorities. These two latter authorities have the ability to directly borrow using revenue backed financings.

Other major local governmental units and their related government services are the Milwaukee Public Schools (education); Milwaukee County (parks, airport/mass transit/highways, social services and court system); Milwaukee Metropolitan Sewerage District (wastewater treatment); and, the Milwaukee Area Technical College (higher education). Wisconsin Statutes require Milwaukee Public School purpose debt to be issued by the City. The remaining governmental units cited each retain the statutory authority to issue general obligation debt.

Two special purpose governments exist with the ability to issue debt and tax on a limited revenue basis. The first is the Southeastern Wisconsin Professional Baseball District (the "District"), a public entity created by State legislation encompassing five southeastern Wisconsin counties, to finance construction/operations of a new baseball facility ("Miller Park") for the National League Milwaukee Brewers baseball club. Miller Park opened in March, 2001. The District has issued \$199 million of revenue bonds supported by a five-county, one-tenth of one percent sales tax and other ancillary revenue streams. In addition, \$45 million of lease certificates of participation have been sold to finance acquisition and installation of facility equipment, scoreboards, etc.

The second special purpose government is the Wisconsin Center District which oversees construction/operation of the Midwest Airlines Center, Milwaukee's major convention complex. This complex also includes the existing US Cellular Arena and the Milwaukee Auditorium facilities, formerly known as "MECCA". The Midwest Airlines Center was financed by \$185 million of revenue bonds backed by dedicated sales tax revenues from the lodging, restaurant, and vehicle rental areas. Phase one of the Midwest Airlines Center was completed during 1998. Phase two was completed in 1999. In 2001, \$30 million of Bonds and in 2003, \$7.8 million of Bonds were issued to renovate the Milwaukee Auditorium.

In addition to the facilities noted above, Milwaukee is home to a modern 17,000+ seat indoor sports and concert venue, the Bradley Center, located in the heart of downtown. This facility serves the National Basketball Association Milwaukee Bucks, the Marquette University Golden Eagles basketball team and the Milwaukee Admirals International Hockey League club. Milwaukee also boasts a lakefront Milwaukee Art Museum as well as major symphony, ballet companies, theatre and other performing arts.

May 4, 2001, marked the unveiling of phase one of Milwaukee Art Museum's new expansion and renovation, which combines art, dramatic architecture and landscape design. The new Quadracci Pavilion, the first Santiago Calatrava-designed building in the United States, features a 90-foot high glass-walled reception hall enclosed by the Burke Brise Soleil, a sunscreen that can be raised or lowered creating a unique moving sculpture.

Finally, the Milwaukee area is the site of a number of higher education institutions, including Marquette University, the University of Wisconsin – Milwaukee, Alverno College, Mount Mary College and the Milwaukee School of Engineering.

EMPLOYEE RELATIONS

Approximately 6,400 of the City's 7,150 full-time employees are members of bargaining units represented by 19 unions. The City is currently in arbitration with one bargaining unit for a contract to be effective January 1, 2001. The city is or will be in negotiations with 16 bargaining units for successor agreement to contracts which expired at the end of 2002 or mid-2003 and is in mediation with one of the 16 (District Council 48). The City is or will be in negotiation with two bargaining units (Milwaukee Police Association and the Milwaukee Professional Fire Fighters' Association) for successor agreements which will expire at the end of 2003. There have been no contract settlements for 2004.

GENERAL, DEMOGRAPHIC AND ECONOMIC INFORMATION

GENERAL

The City, with a population of 587,800, represents approximately 39 percent of the population of the greater metropolitan area. Based on the last U.S. Census, population in the four county retail trade area surrounding Milwaukee is 1,512,400 and represents 28% of the population of the State of Wisconsin. Over 74 percent of metropolitan Milwaukee's population is comprised of residents within the working ages of 18 to 64. Forty-five percent of the Milwaukee SMSA (Milwaukee, Washington, Waukesha and Ozaukee Counties) residents are under the age of 35.

Effective buying income in the City is approximately \$7.9 billion, 27 percent of the total effective buying income in the four county metro Milwaukee area. In Milwaukee, 29.2 percent of City households earn between \$20,000 and \$35,000 per year; 18.7 percent earn between \$35,000 and \$50,000 per year and 20.2 percent earn over \$50,000 per year. The age distribution of the population of the City is 11.9 percent between 18 and 24 years old; 15.5 percent between 25 and 34 years old; 20.6 percent between 35 and 49 years old and 23.5 percent are 50 years or older.

CITY OF MILWAUKEE SELECTED ECONOMIC DATA

	<u>Population⁽¹⁾</u>	<u>Per Capita Average Income</u>	<u>Per Capita Household Income</u>	<u>Per Capita Equalized Value</u>
1998	610,654	\$13,436	\$34,839	\$26,575
1999	608,150	13,780	35,830	27,462
2000	605,572	14,170	36,830	28,641
2001	595,508	14,147	36,339	32,667
2002	595,958	13,420	34,320	34,022
2003	587,800	Not Available	Not Available	36,970

(1) The population figures are derived through estimates from the Wisconsin Department of Revenue for use in the distribution of State Shared Revenues.

Sources: Derived from data contained in Sales and Marketing Management magazine as reported for the appropriate year. Other sources include the Bureau of Census; Wisconsin Department of Revenue; Metropolitan Milwaukee Association of Commerce and the City of Milwaukee Division of Economic Development.

Sales and Marketing Management magazine reported that all demographic information has been benchmarked to the 2000 Census data released in fall 2002.

BUILDING PERMITS

Another indicator of economic growth is the activity in the building industry. The following table indicates building permit activity during the period 1998 through December 2002.

General Total

<u>Year</u>	<u>Value</u>	<u>Permits Issued</u>
1999	\$332,184,632	2,429
2000	281,978,437	2,448
2001	388,613,133	2,752
2002	337,028,003	2,756
2003	296,588,164	2,697

Residential Building

<u>Year</u>	<u>Single Family</u>		<u>Multi-Family</u>		<u>Total</u>		<u>Permits Issued</u>
	<u>Value</u>	<u># Of Units</u>	<u>Value</u>	<u># Of Units</u>	<u>Value</u>	<u># Of Units</u>	
1999	\$ 9,489,837	84	10,951,700	119	20,441,537	203	109
2000	13,501,445	113	21,682,808	239	35,184,253	352	137
2001	17,597,336	141	81,508,896	401	99,106,232	542	168
2002	18,726,773	135	53,525,650	562	72,252,423	697	172
2003*	18,397,684	146	69,180,000	582	87,577,684	728	171

Commercial Building

<u>Year</u>	<u>Value</u>	<u>Permits Issued</u>
1999	\$128,343,915	95
2000	99,967,923	88
2001	106,537,251	99
2002	87,778,047	89
2003	56,032,299	92

Public Building

<u>Year</u>	<u>Value</u>	<u>Permits Issued</u>
1999	\$30,726,416	145
2000	43,153,279	181
2001	64,534,354	406
2002	24,122,613	159
2003	50,583,508	196

Alterations And Additions

<u>Year</u>	<u>Value</u>	<u>Permits Issued</u>
1998	\$107,687,818	2,041
1999	152,672,764	2,080
2000	103,672,982	2,042
2001	118,435,296	2,079
2002	152,874,920	2,336
2003	102,394,673	2,238

Note: Miller Park, the City's new major league baseball venue, was completed in March 2001. This \$350 + million project is not incorporated within the above schedules.

Sources: Development Center, Department of City Development. Data accumulated from monthly reports submitted to U.S. Department of Commerce, Bureau of the Census, Construction Statistics Division, Washington D.C.

BANK DEPOSITS

The following table illustrates a five year history of bank deposits for the largest banks in the City. (In Thousands of Dollars)

	1999	2000	2001	2002	2003 ⁽⁶⁾
Bank One, National Association ^{(1) (2)}	\$4,262,523	\$4,397,409	\$4,398,040	—	—
M & I Marshall & Ilsley Bank	5,245,384	8,623,224	18,244,031	\$18,523,783	\$20,186,162
Wells Fargo Bank Wisconsin, N.A.	1,667,542	1,803,846	1,992,708	2,200,491	2,278,499
Bank Mutual ⁽³⁾	1,355,566	1,343,013	1,479,372	1,472,716	2,110,295
Associated Bank, National Association ⁽⁴⁾	1,929,558	1,918,455	5,840,463	5,758,212	6,115,786
Guaranty Bank	678,162	918,287	1,475,151	1,682,971	1,569,460
Johnson Bank	1,016,505	1,105,687	1,165,488	1,705,850	1,829,005
St. Francis Bank, FSB	1,547,272	1,480,471	1,431,840	1,398,198	1,337,010
State Financial Bank, N.A. ⁽⁵⁾	—	859,769	955,237	941,155	907,294
Park Bank	390,147	455,397	466,454	472,664	497,613

- (1) Total deposits for Bank One, Wisconsin. As of December 7, 1996, all 14 of the Bank One charters in Wisconsin merged into one charter. Bank deposits for all Bank One offices in the state are combined and reported as one amount under the name Bank One, Wisconsin. As a result, bank deposits for Bank One offices in the City of Milwaukee are not available for year-end 1996 and later.
- (2) Title change to Bank One, National Association due to a merger with Bank One, National Association of Chicago, Illinois effective August 2002. As a result, bank deposits for Bank One offices in the City of Milwaukee are not available for year-end 2002.
- (3) Mutual Savings Bank changed its title to Bank Mutual Corporation in 2003 due to a merger with its First Northern Savings Bank co-subsiidiary.
- (4) Changed title to Associated Bank, National Association, due to merger with Associated Bank Green Bay, National Association on April 20, 2001.
- (5) State Financial Bank, N.A. formed by merger in 2000.
- (6) As of September 30, 2003.

Source: Wisconsin Department of Financial Institutions and The American Financial Directory (Wisconsin).

Note: Other banks that have a significant presence in the Milwaukee area include TCF National Bank and U.S. Bank. These banks are not chartered in Wisconsin and information on these banks is not available through the Wisconsin Department of Financial Institutions.

(The remainder of this page has been left blank intentionally.)

**LEADING BUSINESS AND INDUSTRIAL FIRMS
LOCATED WITHIN MILWAUKEE COUNTY**

The listing of large employers in Milwaukee County which follows, reveals the diversity of Milwaukee County's economic base. The largest of these are shown in the following list, which includes only employers with the majority or all of their employment in Milwaukee County.

<u>Employer</u>	2002 ⁽¹⁾ <u>Employment</u>	<u>Type of Business or Service</u>
Aurora Health Care	11,365	Health Care
Milwaukee Public Schools	11,329	Education
U.S. Government (Excludes V.A. Medical Center)	8,875	Government
City of Milwaukee	7,150	Government
Covenant Health Care	5,716	Health Care
M&I Marshall & Ilsley	5,579	Holding company banking/finance and data services
Milwaukee County	5,577	Government
University of Wisconsin-Milwaukee	4,178	Education
Northwestern Mutual Life	4,039	Insurance
Medical College of Wisconsin	3,760	Medical school/academic/health care
SBC Communications (Ameritech Corporation)	2,766	Communications
Rockwell Automation (formerly Allen-Bradley)	3,740	Manufacturer, electrical/electronic products
WE Energies	3,300	Electric/natural gas utility
Froedtert Memorial Lutheran Hospital	3,150	Health Care
US Bank (formerly Firststar Corporation)	2,663	Finance, banking
Columbia-St. Mary's ⁽²⁾	2,603	Health Care
Harley-Davidson Motor Company	2,450	Manufacturer, motorcycles
Johnson Controls, Inc.	2,435	Manufacturer, of electronic control systems, automobile interior modules
Briggs and Stratton	2,300	Manufacturer, small engines, automotive locks and keys
Children's Hospital of Wisconsin	2,116	Health care
Clement Zablocki Veterans Medical Clinic	1,950	Health Care
Fortis	1,865	Health care
Miller Brewing Company	1,797	Manufacturer of beer and aluminum containers

Note: Data reflects full-time equivalent employees (FTEs).

(1) Rockwell Automation and Froedert Memorial Lutheran Hospital did not submit a response for 2002 FTEs survey. Due to changes in methodology, U.S. Government, Clement Zablocki Medical Center and Wisconsin Energy reported higher numbers of FTEs. Briggs & Stratton Corporation and Milwaukee County experienced significant decreases due to the downsizing of their workforce.

(2) Columbia-St. Mary's reported higher FTE amounts for 2001. St. Mary's Ozaukee clinic was included in error in 2001.

Source: Milwaukee County Department of Administrative Services, January 2003 survey of employers.

EMPLOYMENT AND INDUSTRY

During the first 10 months of 2003, the City's unemployment rate averaged 8.9%. Presented below are annual unadjusted unemployment rates for the City of Milwaukee, as compared to the State of Wisconsin and the United States for the period 1998 through 2003.

<u>Year</u>	<u>City of Milwaukee</u>	<u>Milwaukee - Waukesha Metropolitan Area</u>	<u>State of Wisconsin</u>	<u>United States</u>
2003	9.8%	6.2%	5.4%	6.0%
2002	9.6	6.0	5.5	5.8
2001	7.8	4.7	4.5	4.7
2000	6.7	3.8	3.6	4.0
1999	5.4	3.1	3.0	4.2
1998	5.3	3.3	3.4	4.5

October, 2003. Rates for City of Milwaukee and Milwaukee - Waukesha Metropolitan Area are not seasonally adjusted.
Source: U.S. Bureau of Labor Statistics.

Milwaukee's economic structure reveals a diversified economy with strong service and manufacturing sectors. The service sector (service, finance, insurance, real estate and retail trade) employs over 69 percent of the workforce. Manufacturing firms employ 17 percent of the work force. The area is not dominated by any large employers. Less than two percent of the manufacturers have employment levels greater than 500. Less than one percent of the employers in finance, insurance and services have more than 500 employees.

CITY OF MILWAUKEE ESTABLISHMENTS AND EMPLOYMENT BY INDUSTRY GROUP 1998 – 2002

Industry Group	Number of Establishments					Employment				
	1998	1999	2000	2001	2002	1998	1999	2000	2001	2002
Agriculture	109	109	108	108	108	746	750	816	700	662
Construction	828	822	826	752	739	8,035	8,134	8,318	7,847	6,984
Manufacturing	1,060	1,041	1,004	986	961	59,536	56,591	55,660	50,893	50,019
Transportation & Communications	588	580	597	574	60	18,645	16,456	16,704	14,944	14,397
Wholesale Trade	1,238	,173	1,120	1,107	1,089	20,201	20,551	20,129	18,800	18,445
Retail Trade	2,636	2,626	2,637	2,579	2,546	42,856	43,661	43,309	42,337	38,973
Finance, Insurance & Real Estate	1,377	1,290	1,237	1,339	1,305	33,344	35,370	33,314	32,760	30,982
Services	<u>6,533</u>	<u>6,107</u>	<u>5,862</u>	<u>6,084</u>	<u>6,125</u>	<u>127,280</u>	<u>140,006</u>	<u>143,968</u>	<u>140,365</u>	<u>136,141</u>
Totals	<u>14,369</u>	<u>13,748</u>	<u>13,391</u>	<u>13,529</u>	<u>13,433</u>	<u>310,643</u>	<u>321,519</u>	<u>322,218</u>	<u>308,646</u>	<u>296,603</u>

Source: Wisconsin Department of Workforce Development.

TEN LARGEST TAXPAYERS WITH 2002 ASSESSED VALUATIONS ⁽¹⁾

First Security Bank	\$200,731,580
Northwestern Mutual Life Ins. (Insurance)	166,276,440
Teachers Insurance & Annuity/TIAA Realty (Real Estate Investment)	100,879,200
Towne Realty (Real Estate)	81,212,460
M & I Marshall & Ilsley Bank/Metavante Corp	78,633,810
Marcus Corp/Milw City Center/Pfister (Hotels, Motels, Restaurants)	74,042,840
Miller Brewing (Brewing)	69,659,720
Great Lakes REIT/GLR Milw Center (Real Estate Investment)	67,146,900
Metropolitan Associates (Real Estate Investment)	66,607,480
100 E. Wisconsin Ave Joint Venture (Real Estate Investment)	55,949,570

(1) The above assessed values represent an equalization ratio of 98.10% to full value as determined by the Wisconsin Department of Revenue. (2002 Assessments for 2003 Purposes.)

Source: City of Milwaukee, Assessor's Office.

(The remainder of this page has been left blank intentionally.)

DEBT STRUCTURE

The City of Milwaukee has never defaulted in the payment of the principal or interest on its debt obligations, nor has the City issued any refunding securities for the purpose of preventing default in principal or interest on its debt obligations.

LEGAL DEBT LIMITATIONS

Section 67.03 of the Wisconsin Statutes limits direct general obligation borrowing to an amount equivalent to five percent of the equalized valuation of taxable property. Section 119.49 of the Wisconsin Statutes further authorizes bonding in an additional amount equivalent to two percent of the equalized taxable property for school capital purposes (which, other than the 2003 City Notes, must be approved in a referendum). Such debt margins, as of December 1, 2003, are calculated upon the 2003 City equalized valuation for 2004 purposes of \$21,730,754,000. The available five percent debt margin for City borrowing is \$447,938,267 or 41.23% remaining for future debt issuance. After issuance of the 2003 City Notes in the aggregate principal amount of \$21,482,013, the available two percent debt margin for school capital purposes is \$413,133,067, or 95.06% remaining for future debt issuance. Together, "Total Debt Margin" equals \$861,071,334 or 56.61%.

DEBT MARGIN

2003 Equalized Value of Taxable Property in the City	\$21,730,754,000
--	------------------

Legal Debt Limitation for City Borrowing

5% of Equalized Value	\$1,086,537,700
General Obligation Debt Outstanding	
As of December 1, 2003	\$646,829,433
Less: Provision for 2003 Maturities	\$ (8,230,000)
Net General Obligation Debt Outstanding as of December 1, 2003	\$638,599,433
Total Debt Margin for City Borrowing (In Dollars)	\$447,938,267
(As a percentage)	41.23%

Legal Debt Limitation for School Purpose Borrowing

2% of Equalized Value	\$434,615,080
2003 City Notes	\$21,482,013
Total Debt Margin for School Purpose Borrowing (In Dollars)	\$413,133,067
(As a Percentage)	95.06%

**ANALYSIS OF GENERAL OBLIGATION DEBT
OUTSTANDING AS OF DECEMBER 1, 2003**

SERIAL BONDS

Schools	\$92,254,986
Tax Increment Districts	89,264,589
Streets	84,906,524
Sewers	71,940,222
Public Buildings	53,207,105
Police	48,769,369
Water	37,808,589
Blight Elimination/Urban Renewal	25,167,384
Local Improvement Projects/Special Ass	23,820,327
Parking	17,016,818
Bridges	12,968,412
Playground/Rec Facilities	10,413,419
Library	8,790,840
Fire	8,172,505
Harbor	4,366,745
Economic Development	618,550
Industrial Land Bank	256,808
Milwaukee Exposition and Conv Center	101,152
Resource Recovery	83,532
Lakefront Development	32,124
TOTAL BONDS OUTSTANDING	\$589,960,000

SERIAL NOTES

Finance Real & Personal Property Tax Rec	24,190,000
FMIS Replacement	11,331,226
School	8,941,613
Public Buildings	6,237,851
Parking	3,764,433
Municipal Expenses	2,000,000
Grant & Aid Improvements City Share	404,310
TOTAL NOTES OUTSTANDING	\$56,869,433
TOTAL GENERAL OBLIGATION DEBT OUTSTANDING AS OF DECEMBER 1, 2003	\$646,829,433

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

The following indicates the annual requirements of principal and interest on the general obligation debt of the City of Milwaukee.

Year	General Obligation Debt Service Requirements Prior to the issuance of the 2003 City Notes	Plus: Debt Service on the 2003 City Notes			Total Debt Service Requirements after the issuance of the 2003 City Notes
		Principal	Interest	Total	
2003	\$ 11,550,767				\$ 11,550,767
2004	108,055,059				108,055,059
2005	101,798,700	\$ 287,805	\$ 7,195	\$ 295,000	102,388,700
2006	88,406,260	494,734	30,266	525,000	89,456,260
2007	80,874,716	22,490	2,510	25,000	80,924,716
2008	74,923,420	855,335	149,665	1,005,000	76,933,420
2009	65,339,669	413,592	106,408	520,000	66,379,669
2010	58,805,954	1,132,309	387,691	1,520,000	61,845,954
2011	52,293,025	728,146	316,854	1,045,000	54,383,025
2012	46,200,286	1,343,965	716,035	2,060,000	59,320,286
2013	40,156,980	1,429,489	915,511	2,345,000	44,846,980
2014	33,813,448	1,079,504	820,496	1,900,000	37,613,448
2015	27,175,785	1,553,467	1,386,533	2,940,000	33,055,785
2016	19,506,791	1,238,434	1,271,566	2,510,000	24,526,791
2017	13,954,550	1,635,239	1,934,762	3,570,000	21,094,550
2018	8,775,653	1,338,544	1,821,456	3,160,000	15,095,653
2019	1,607,381	1,666,727	2,568,273	4,235,000	10,077,381
2020	148,444	1,676,322	2,908,678	4,585,000	9,318,444
2021	---	1,433,148	2,771,852	4,205,000	8,410,000
2022	---	1,684,005	3,630,995	5,315,000	10,630,000
2023	---	1,468,761	3,486,239	4,955,000	9,910,000
Total	<u>\$833,386,888</u>	<u>\$21,482,014</u>	<u>\$25,232,987</u>	<u>\$46,715,000</u>	<u>\$926,816,888</u>

TRENDS OF GENERAL OBLIGATION DEBT

The following table indicates the general obligation debt of the City outstanding on the dates shown.

<u>Date</u>	<u>General Obligation Debt Outstanding⁽²⁾</u>	Debt Service Fund Balance ⁽¹⁾		<u>Debt Less Debt Service Balance</u>
		<u>Allocated To Specific Issues⁽³⁾</u>	<u>Unallocated⁽⁴⁾</u>	
12/31/1997	\$459,797,806	\$8,336,613	\$13,901,387	\$437,559,806
12/31/1998	518,401,459	9,691,634	15,249,366	493,460,459
12/31/1999	559,098,751	11,253,948	20,068,052	527,776,751
12/31/2000	605,239,921	9,623,007	20,812,993	574,803,921
12/31/2001	643,382,647	13,391,189	28,745,811	601,245,647
12/31/2002 ⁽⁵⁾	659,548,890	14,526,317	3,021,809	642,000,763
12/01/2003 ⁽⁶⁾	646,829,433	1,974,213	20,476,755	624,378,466

- (1) The allocation of the Debt Service Fund balances to specific issues is based upon the debt service due for Tax Incremental Districts, Parking, Special Assessment, Water and Delinquent Tax borrowings as a portion of total debt service. (For further information regarding debt service due for Tax Increment Districts, see "TAX INCREMENT DISTRICT FINANCING" below.)
- (2) Includes amounts borrowed for Tax Incremental District Program, Parking Program, financing of special assessments, delinquent taxes and water purposes. See "TRENDS OF SELF SUSTAINING GENERAL OBLIGATION DEBT" on the following page for additional information.
- (3) From Provision for Future Maturities - Principal and Interest.
- (4) From Debt Service Fund Revenues.
- (5) Beginning with 2002, the portion of the Debt Service Fund needed to pay interest on certain self supporting debt has been excluded from the balance.
- (6) Does not include the 2003 City Notes.

TRENDS OF SELF-SUSTAINING GENERAL OBLIGATION DEBT

<u>Date</u>	General Obligation Debt Less Debt Service Balance ⁽²⁾	Self-Sustaining General Obligation Debt ⁽¹⁾					Total Self Sustaining Debt	Net General Obligation Debt Less Self- Sustaining Debt ⁽⁶⁾
		TID Program ⁽³⁾	Parking Program	Special Assessments ⁽⁴⁾	Delinquent Taxes ⁽⁵⁾	Water		
12/31/1997	\$445,896,419	\$55,188,023	\$16,973,337	\$27,609,606	\$23,855,000	\$47,343,043	\$170,969,009	\$274,927,410
12/31/1998	503,152,093	64,899,209	21,532,010	27,912,744	23,195,000	61,981,967	199,520,930	303,631,163
12/31/1999	539,030,699	66,836,574	25,399,711	28,560,056	21,950,000	57,373,821	200,120,162	338,910,537
12/31/2000	584,426,928	66,078,454	26,981,616	26,299,555	21,225,000	52,611,050	193,195,675	391,231,253
12/31/2001	614,636,836	85,095,889	25,557,046	23,882,153	22,430,000	47,857,943	204,823,031	409,813,805
12/31/2002	656,527,080	92,727,110	22,588,922	21,291,451	22,645,000	42,488,920	201,741,403	454,785,677
12/01/2003	626,352,679	89,264,589	20,781,251	25,167,384	24,190,000	37,808,589	197,211,813	429,140,866

- (1) The City defines "Self-Sustaining General Obligation Debt" to include any general obligation debt previously issued whose debt service requirements is currently met with current non-Citywide property tax revenues.
- (2) Unallocated portion only. Allocated Debt Service Fund Balance relates to "Self-Sustaining" Debt categories detailed above.
- (3) See "TAX INCREMENT DISTRICT FINANCING" herein for additional information.
- (4) The Public Debt Commission, as one of its statutory mandates, oversees the portion of the Public Debt Amortization Fund used annually to prepay outstanding debt. The Commissioners of the Public Debt have reserved a portion of this Fund sufficient to make principal and interest payments for all outstanding special assessments purpose debt service to maturity.
- (5) Debt service on securities used to fund delinquent tax is offset completely by remitted delinquent tax payments.
- (6) General Obligation Debt less unallocated Debt Service Balance and less Self-Sustaining Debt on a per capita basis is as follows:

<u>Date</u>	<u>Debt Per Capita</u>
12/31/1998	\$497.22
12/31/1999	557.28
12/31/2000	646.05
12/31/2001	688.17
12/31/2002	763.12
12/01/2003	730.08

**RATIO OF GENERAL OBLIGATION DEBT
TO EQUALIZED AND ASSESSED VALUES AND TO PER CAPITA
AND PER CAPITA INCOMES**

<u>Date</u>	<u>Population⁽¹⁾</u>	<u>Net Equalized Valuation⁽²⁾</u>	<u>Assessed Valuation</u>	<u>Net General Obligation Debt⁽³⁾</u>	<u>Net General Obligation Debt/Equalized Valuation⁽⁴⁾</u>	<u>Net General Obligation Debt/Assessed Valuation</u>	<u>Net General Obligation Debt Per Capita⁽⁴⁾</u>	<u>Per Capita Income</u>	<u>Net G.O. Debt Per Capita/ Per Capita Income</u>
12/31/1998	610,654	\$16,228,218,000	\$16,072,114,035	\$493,460,459	3.04%	3.07%	\$808.09	\$13,436	6.01%
12/31/1999	608,150	16,701,225,300	15,774,873,167	527,776,751	3.16	3.35	867.84	13,870	6.26
12/31/2000	605,572	17,344,251,400	17,582,994,597	574,803,921	3.31	3.27	949.19	14,170	6.70
12/31/2001	595,508	19,453,830,200	17,699,784,394	601,245,647	3.09	3.40	1,009.63	14,147	7.14
12/31/2002	595,958	20,298,387,000	19,866,255,215	642,000,763	3.16	3.23	1,077.26	13,420	8.03
12/01/2003	587,800	21,730,754,000	21,007,159,707	624,378,466	2.87	2.97	1,062.23	N/A	N/A

(1) The population figures are derived through estimates from the Wisconsin Department of Revenue population used in the distribution of State Shared Revenues.

(2) Per Wisconsin Department of Revenue, Bureau of Property and Utility Tax.

(3) See - "TRENDS OF GENERAL OBLIGATION DEBT" herein.

(4) The Public Debt Amortization Fund may be used to acquire debt prior to maturity. Assuming the year-end unsegregated fund balance had been applied in this manner to debt in 1998 through 2003, the following results would have occurred:

<u>Date</u>	<u>Debt Percentage Of Equalized Value</u>	<u>Direct Debt Per Capita</u>
12/31/1998	2.71%	\$721.84
12/31/1999	2.89	793.76
12/31/2000	3.06	877.44
12/31/2001	2.86	936.33
12/31/2002	2.94	1,002.87
12/01/2003	2.67	986.81

**COMPUTATION OF NET DIRECT AND OVERLAPPING DEBT
(GENERAL OBLIGATION DEBT ONLY)
DECEMBER 1, 2003**

Governmental Unit	Debt Outstanding December 1, 2003	Approximate Percentage Applicable	Milwaukee's Share of Debt as of December 1, 2003
City of Milwaukee ⁽¹⁾	\$638,599,433	100%	\$638,599,433
Area Board of Vocational, Technical and Adult Education, District No. 9	76,575,000	37.45	28,677,338
County of Milwaukee	472,833,541	45.97	217,361,579
Milwaukee Metropolitan Sewerage District ⁽²⁾	657,762,488	47.03	309,345,698
TOTAL NET DIRECT AND OVERLAPPING DEBT	\$1,845,770,462		1,193,984,047

(1) Includes \$101,196,599 general obligation debt outstanding which financed Milwaukee Public Schools improvements.

(2) Includes \$338,143,488 of low interest loans from the State of Wisconsin Clean Water Fund, supported by the full faith and credit of the District.

FUTURE FINANCING

The City has approximately \$151 million of authorized, but not issued, general obligation bonds and notes for various capital improvement purposes.

The 2004 adopted budget for the City includes authorization for an additional \$130 million of general obligation bonds and notes for various capital purposes and \$300 million for cash flow notes. In addition, both 2003 and 2004 have approximately \$30 million of contingent borrowing authority for unanticipated needs.

(The remainder of this page has been left blank intentionally.)

REVENUE BONDING

The City and City agencies have issued revenue bonds directly and indirectly. Entities which have issued revenue bonds include the Redevelopment Authority and the Housing Authority. Collectively, the bond programs of the Housing and Redevelopment Authorities complement City financed economic development projects and foster the same development objectives.

Water System Revenue Bonds, Series 1998 - On December 22, 1998, the City and the State of Wisconsin entered into a loan agreement with the City borrowing up to \$19,358,172 under the State of Wisconsin Safe Drinking Water Loan Program for water treatment system improvements. This loan, at a rate of 2.64%, is secured by revenues of the Milwaukee Water Works.

As of September 15, 2002, the amount of \$17,559,338 has been loaned to the City by the State of Wisconsin. The remaining outstanding balance as of September 15, 2002 is \$16,008,876. Debt service on this issuance is anticipated through the year 2018.

Sewerage System Revenue Bonds – For the purpose of financing the cost of improvements to the City's sewerage system, the City has issued the following Sewerage System Revenue Bonds:

<u>Series</u>	<u>Final Maturity</u>	<u>Amount Issued</u>	<u>Outstanding December 1, 2003</u>
2001	2021	\$29,095,000	\$28,095,000
2003	2023	33,885,000	33,885,000

Industrial Revenue Bonding Program - The City of Milwaukee has established guidelines relating to its Industrial Revenue Bonding Program. These guidelines establish criteria for IRB financing. The guidelines delineate that the primary goals of this program are additional tax base, additional jobs or both.

Industrial land, buildings, and machinery and equipment used in the manufacturing process and pollution abatement equipment of new or expanding industries are eligible projects. Since the first IRB issue in 1973, the City has closed 125 issues amounting to approximately \$265 million. The City has no responsibility to either secure or redeem IRB debt, and thus neither guarantees nor lends its own credit to these obligations.

Housing Authority of the City of Milwaukee – Most of the Housing Authority bonds and notes are secured by a lien on all revenues of the Housing Authority Low Income Housing Program. The Housing Authority has also issued debt for "stand-alone" projects. The Housing Authority bonds and notes are not a general obligation of the City nor are they guaranteed by the City. As such, they are not backed by the general credit or taxing powers of the City.

Between the period 1983 and September 15, 2002, the Housing Authority issued revenue bonds of approximately \$149 million of which, approximately \$35 million are still outstanding.

Redevelopment Authority of the City of Milwaukee - The Redevelopment Authority of the City ("RACM") is a public body corporate and politic formed in 1958 by action of the Common Council of the City pursuant to the Section 66.1333, Wisconsin Statutes ("Act").

RACM has as its purpose the carrying out of blight elimination, slum clearance and urban renewal programs and projects as set forth in the Act, and is authorized under the Act to issue revenue bonds for the financing of such programs and projects and to enter into revenue agreements to provide revenues for the payment of such revenue bonds.

Since its creation, RACM has provided for the acquisition and improvement of a variety of industrial, commercial, housing and other revenue-producing projects, and, in some instances, has entered into revenue agreements for the financing thereof, pursuant to authorization contained in the Act. In connection with the financing of a number of such projects, RACM has issued revenue bonds under a number of authorizing resolutions and indentures, each of which contained separate terms and conditions relating to the respective issues of revenue bonds. In each instance, the bonds issued constitute limited obligations of RACM, and do not constitute an indebtedness of the City or a charge against the City's general credit or taxing power.

The majority of these issues are supported solely by the revenues of the various projects. While in each instance, the bonds issued constitute limited obligations of RACM, and do not constitute an indebtedness of the City or a charge against the City's general credit or taxing power; there are certain issues which involve contingent liabilities of RACM and/or the City.

As of December 1, 2003, RACM had outstanding: one bond issue with \$2,245,000 outstanding secured by a lease with the City; two bond issues with \$43,140,000 outstanding that have a Moral Obligation Pledge of the City; and \$146,515,000 in three bond issues, one secured by a lease, and the other two secured by a loan agreement, both with MPS. These bonds do not constitute general obligations of the City, or of MPS, and shall not constitute or give rise to a charge against the City's taxing powers. These pledges create only financial obligations of the City, or MPS, which are subject to annual appropriation. The loan agreement with MPS includes a pledge of certain state aid payable to MPS. For additional information on financings provided by RACM for the benefit of MPS see APPENDIX C—"MILWAUKEE PUBLIC SCHOOLS—Revenue Bonds."

Milwaukee Economic Development Corporation - As of October 31, 2003, the Milwaukee Economic Development Corporation funded loans for 856 small businesses and redevelopment projects utilizing \$148.9 million to leverage a total of \$747.4 million in investment. 560 loans have been enrolled in the Capital Access Program with covered loan amounts totaling \$17 million.

The Milwaukee Economic Development Corporation had notes and debentures payable under the Small Business Administration's section 503 and 504 loan programs in the amount of \$8.4 million as of October 31, 2003.

TAX INCREMENT DISTRICT FINANCING

Five issues of RACM and the Housing Authority involving over \$60 million in bonds have financed projects located within tax incremental districts ("TID"). The City has also financed public improvements and provided grants to RACM for redevelopment purposes within such Districts through the issuance of its general obligation bonds. As of December 1, 2003, \$89,264,589 of general obligation bonds for TID purposes are outstanding. Tax increments received by the City historically have been calculated based upon the assessed valuation and the applicable tax levy in the tax increment district. The applicable tax levy includes the public school tax levy rate for MPS.

In 1996, the Wisconsin Legislature passed a property tax relief measure which increased the portion of statewide school revenues funded by State equalization aid to two-thirds from approximately one-half of all funds' budgets. The 2002 Assessed Tax Rate for Milwaukee Public Schools was \$9.34 per thousand dollars of assessed value, down from \$15.70 in 1995. As a result, tax increment revenues for certain TIDs received by the City have been, and are expected to continue to be, reduced, and therefore have the impact of either increasing the time needed to recover incurred project costs, including future debt service requirements; reducing the funding of active and proposed TIDs; or may require the City to fund TIDs cash flow deficiencies with other City revenues. Therefore, the Legislature extended the allowable life of all TIDs established before October 1, 1995 from a maximum 23 years to a maximum 27 years to accommodate the lower school property tax rate. In any year in which total TID debt service requirements for the ensuing year are greater than total tax increments received, the shortfall is funded by the general property tax levy.

FINANCIAL INFORMATION

BUDGETING

Each department and agency prepares its own detailed estimate of needs for the ensuing fiscal year which is filed with the Mayor not later than the second Tuesday in May of each year, at which time the Comptroller submits his statement of anticipated non-property tax revenues in accordance with City Charter provisions. Under the City Charter, changes to these non-property tax revenue estimates can be made only by the Comptroller. The Mayor holds hearings on departmental spending requests during July and August at the times and places the Mayor or Common Council by ordinance directs. The Mayor submits a proposed budget to the Common Council on or before September 28th of each year. This budget includes the Comptroller's anticipated non-property tax revenues. Subsequent to receipt of the budget by the Common Council, its Committee on Finance and Personnel reviews the Mayor's proposed expenditure budget. The Mayor and Common Council hold a public hearing on the entire budget no later than the 30th day of October. The Common Council subsequently adopts a property tax levy, but cannot change the Comptroller's anticipated revenues budget. The final budget must be adopted by the 14th of November. The City is under no State or local levy limit strictures with respect to its General, Capital or Debt Service Funds.

CITY CAPITAL IMPROVEMENTS PLAN

The City's 2003-2008 Capital Improvements Plan (CIP) describes planned capital improvement projects and programs together with proposed financing. School purpose improvements financed by the City for MPS are included in this CIP.

The six-year City CIP municipal spending plan totals \$1,049 million. In addition, the City plans to provide \$72 million toward capital improvements for the MPS for a six-year total of \$1,121 million. About \$974 million or 87 percent of planned municipal and school purpose spending is intended to preserve the City's existing infrastructure facilities (streets, sewers, alleys, bridges, etc.) and schools. The remaining 13 percent is for expansion purposes.

Surface transportation accounts for approximately 26 percent of the CIP, or about \$287 million. Twenty-four percent (\$269 million) is planned for environmental projects including sewer and water improvements plus forestry and subsurface remediation projects. Almost \$124 million of capital spending (11% of the CIP) is planned for economic development projects through 2008. These projects are mainly Tax Incremental District related or Port of Milwaukee capital improvements. The remaining 39 percent (\$429 million) is planned for school, health/safety improvements and general governmental purposes. All \$72 million in planned school capital improvements is dedicated to deferred maintenance, repairs and remodeling projects, including \$12 million for Americans with Disabilities (ADA) accessibility projects.

In addition to school capital spending within the City's Capital Improvements Program, an additional \$112 million has been raised through revenue bonds issued by RACM for the construction and expansion of neighborhood schools. These bonds will be repaid with State aid formerly used to pay for transportation. The state also provides a moral obligation pledge to repay the revenue bonds. For additional information, see APPENDIX C—"MILWAUKEE PUBLIC SCHOOLS—REVENUE BONDS—Neighborhood Schools Initiative."

The portion of the \$1,121 million six-year CIP to be financed by the property tax levy totals about \$565 million (50%). This in turn is composed of direct tax levy funding of \$103 million (9%) and tax levy supported debt financing of \$462 million (41%). Cash revenues including Federal and State grants, developer financing and other sources, total \$190 million (17%) of planned CIP spending. An additional \$87 million (8%) is to be financed by City debt to be repaid with tax increment and other revenues, totaling eight percent of total CIP spending. The remaining \$280 million (25%) of the municipal purpose CIP is to be financed by self-supported debt issued for special assessments, water, sewer and parking purposes.

In addition to \$12 million in new school purpose borrowing authority, the adopted 2003 Capital Improvements Budget totals \$184 million compared to a 2002 Budget of \$162 million. The 2003 total includes \$46 million in new paving projects, \$23 million for sewer or related environment projects and \$8 million in police facility improvements. About 86 percent of the 2003 Capital Budget is dedicated to preservation purposes, mainly the City's sewer, surface transportation systems, and police facilities. The majority of the expansion purpose expenditures are for economic development, streets, and sewers.

ADOPTED BUDGET – COMBINED REVENUES – 2003

	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Total
Taxes						
Property Tax - General	\$84,734,381	\$1,000,000	\$54,762,233	\$10,587,803	—	\$151,084,417
Provision for Empl Retirement ⁽¹⁾	40,937,332	—	—	—	—	40,937,332
Common Council Cont	5,000,000	—	—	—	—	5,000,000
Total Taxes	<u>\$130,671,713</u>	<u>\$1,000,000</u>	<u>\$54,762,233</u>	<u>\$10,587,803</u>	<u>\$0</u>	<u>\$197,021,749</u>
Revenues						
Taxes	12,876,500	—	—	—	—	12,876,500
Licenses and Permits	9,053,700	—	—	—	—	9,053,700
Intergovernmental Revenues	284,217,956	83,572,350	—	—	—	367,790,306
Charges for Service	76,878,526	—	—	—	—	76,878,526
Fines and Forfeitures	4,113,000	—	—	—	—	4,113,000
Miscellaneous Revenues	16,692,600	9,000,000	—	—	8,300,000	33,992,600
Cost Recovery	10,000	—	—	—	—	10,000
Fringe benefits ⁽²⁾	16,250,000	—	—	—	—	16,250,000
Parking	—	—	—	—	27,426,797	27,426,797
Water Works	—	—	—	—	84,018,579	84,018,579
Sewer Maintenance Fund	—	—	—	—	28,498,059	28,498,059
Retained Earnings	—	—	—	—	11,100,000	11,100,000
Sinking Fund	—	—	64,041,654	—	—	64,041,654
Special Assessments	—	4,504,379	—	7,955,400	—	12,459,779
Capital Revenue	—	—	—	9,600,000	—	9,600,000
Total Revenues	<u>\$420,092,282</u>	<u>\$97,076,729</u>	<u>\$64,041,654</u>	<u>\$17,555,400</u>	<u>\$159,343,435</u>	<u>\$758,109,500</u>
Tax Stabilization						
Transfer from Reserves	9,300,000	—	—	—	—	9,300,000
Sale of Bonds and Notes						
Bonds and Notes	—	—	—	78,985,180	19,411,000	98,396,180
Grand Total	<u>\$560,063,995</u>	<u>\$98,076,729</u>	<u>\$118,803,887</u>	<u>\$107,128,383</u>	<u>\$178,754,435</u>	<u>\$1,062,827,429</u>

(1) Includes employer and employee pension contributions and City employers' share of FICA.

(2) For budgeting purposes, Fringe Benefits are used as an offset against expenditures since these costs are budgeted twice, both as a lump sum and as individual departmental expenditures.

ADOPTED BUDGET – COMBINED APPROPRIATIONS – 2003

	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Total
Administration, Dept of	\$8,498,269	—	—	\$811,500	—	\$9,309,769
Assessor's Office	4,603,519	—	—	—	—	4,603,519
City Attorney	6,437,106	—	—	—	—	6,437,106
City Treasurer	3,023,860	—	—	—	—	3,023,860
Common Council - Clerk	7,861,232	—	—	—	—	7,861,232
Municipal Court	3,385,806	—	—	—	—	3,385,806
Comptroller	5,005,043	—	—	—	—	5,005,043
Dept of City Development	4,290,826	—	—	16,850,000	—	21,140,826
Election Commission	1,079,917	—	—	—	—	1,079,917
Employee Relations, Dept of	5,576,493	—	—	—	—	5,576,493
Fire Department	78,433,193	—	—	5,105,000	—	83,538,193
Health Department	13,814,912	—	—	1,129,700	—	14,944,612
Library Board	21,727,872	—	—	990,000	—	22,717,872
Mayor's Office	1,202,032	—	—	—	—	1,202,032
Neighborhood Services	12,702,465	—	—	260,000	—	12,962,465
Police Department	168,810,655	—	—	4,571,793	—	173,382,448
Port of Milwaukee	3,280,923	—	—	400,000	—	3,680,923
Public Debt Commission	593,799	—	—	—	—	593,799
DPW-Administration	4,856,904	—	—	626,000	—	5,482,904
DPW-Infrastructure	23,748,383	—	—	35,533,185	—	59,281,568
DPW-Operations	81,347,580	—	—	29,526,205	—	110,873,785
Water Works	—	—	—	—	90,118,579	90,118,579
Sewer Maintenance Fund	—	—	—	—	46,248,059	46,248,059
Special Purpose Accounts	125,665,617	—	—	—	—	125,665,617
Pension Funds	66,634,994	—	—	—	—	66,634,994
Debt Service - City	—	—	103,167,336	—	—	103,167,336
Debt Service - Schools	—	—	15,636,551	—	—	15,636,551
Contingency	5,000,000	—	—	—	—	5,000,000
Delinquent Tax Fund	—	10,000,000	—	—	—	10,000,000
Parking	—	—	—	—	42,387,797	42,387,797
Grant & Aid Fund	—	83,572,350	—	—	—	83,572,350
Special Capital Projects	—	—	—	11,325,000	—	11,325,000
Economic Development	—	4,504,379	—	—	—	4,504,379
Fringe Benefit Offset ⁽¹⁾	(97,517,405)	—	—	—	—	(97,517,405)
Grand Total	<u>\$560,063,995</u>	<u>\$98,076,729</u>	<u>\$118,803,887</u>	<u>\$107,128,383</u>	<u>\$178,754,435</u>	<u>\$1,062,827,429</u>

(1) For budgeting purposes, Fringe Benefits are used as an offset against expenditures since these costs are budgeted twice, both as a lump sum and as individual departmental expenditures.

ADOPTED BUDGET – COMBINED REVENUES – 2004

	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Total
Taxes						
Property Tax - General	\$85,155,728	\$1,000,000	\$53,994,910	\$11,475,510	—	\$151,626,148
Provision for Empl Retirement ⁽¹⁾	42,386,238	—	—	—	—	42,386,238
Common Council Cont	5,000,000	—	—	—	—	5,000,000
Total Taxes	<u>\$132,541,966</u>	<u>\$1,000,000</u>	<u>\$53,994,910</u>	<u>\$11,475,510</u>	<u>\$0</u>	<u>\$199,012,386</u>
Revenues						
Taxes	11,953,500	—	—	—	—	11,953,500
Licenses and Permits	10,025,300	—	—	—	—	10,025,300
Intergovernmental Revenues	273,548,000	71,908,461	—	—	—	345,456,461
Charges for Service	83,162,862	—	—	—	—	83,162,862
Fines and Forfeitures	4,784,700	—	—	—	—	4,784,700
Miscellaneous Revenues	20,407,700	9,500,000	—	—	12,000,000	41,907,700
Cost Recovery	10,000	—	—	—	—	10,000
Fringe benefits ⁽²⁾	16,500,000	—	—	—	—	16,500,000
Parking	—	—	—	—	24,176,679	24,176,679
Water Works	—	—	—	—	100,815,206	100,815,206
Sewer Maintenance Fund	—	—	—	—	31,965,233	31,965,233
Retained Earnings	—	—	—	—	14,583,546	14,583,546
Sinking Fund	—	—	60,732,859	—	—	60,732,859
Special Assessments	—	4,761,827	—	5,179,290	—	9,941,117
Capital Revenue	—	—	—	12,500,000	—	12,500,000
Total Revenues	<u>\$420,392,062</u>	<u>\$86,170,288</u>	<u>\$60,732,859</u>	<u>\$17,679,290</u>	<u>\$183,540,664</u>	<u>\$768,515,163</u>
Tax Stabilization						
Transfer from Reserves	16,870,000	—	—	—	—	16,870,000
Sale of Bonds and Notes						
Bonds and Notes	—	—	—	80,494,450	15,005,900	95,500,350
Grand Total	<u>\$569,804,028</u>	<u>\$87,170,288</u>	<u>\$114,727,769</u>	<u>\$109,649,250</u>	<u>\$198,546,564</u>	<u>\$1,079,897,899</u>

(1) Includes employer and employee pension contributions and City employers' share of FICA.

(2) For budgeting purposes, Fringe Benefits are used as an offset against expenditures since these costs are budgeted twice, both as a lump sum and as individual departmental expenditures.

ADOPTED BUDGET – COMBINED APPROPRIATIONS – 2004

	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Total
Administration, Dept of	\$7,340,588	—	—	\$630,000	—	\$7,970,588
Assessor's Office	4,120,568	—	—	—	—	4,120,568
City Attorney	6,301,050	—	—	—	—	6,301,050
City Treasurer	2,916,895	—	—	—	—	2,916,895
Common Council - Clerk	7,212,879	—	—	—	—	7,212,879
Municipal Court	3,174,955	—	—	250,000	—	3,424,955
Comptroller	5,237,466	—	—	—	—	5,237,466
Dept of City Development	3,534,627	—	—	23,950,000	—	27,484,627
Election Commission	1,639,802	—	—	—	—	1,639,802
Employee Relations, Dept of	5,077,262	—	—	—	—	5,077,262
Fire Department	89,377,106	—	—	5,840,000	—	95,217,106
Health Department	13,201,538	—	—	1,240,000	—	14,441,538
Library Board	21,191,333	—	—	2,000,000	—	23,191,333
Mayor's Office	953,978	—	—	—	—	953,978
Neighborhood Services	12,946,562	—	—	—	—	12,946,562
Police Department	179,947,129	—	—	6,510,000	—	186,457,129
Port of Milwaukee	3,422,909	—	—	650,000	—	4,072,909
Public Debt Commission	0	—	—	—	—	0
DPW-Administration	4,553,338	—	—	626,000	—	5,179,338
DPW-Infrastructure	22,476,509	—	—	30,629,750	—	53,106,259
DPW-Operations	75,971,287	—	—	20,998,500	—	102,969,787
Water Works	—	—	—	—	108,075,206	108,075,206
Sewer Maintenance Fund	—	—	—	—	45,665,233	45,665,233
Special Purpose Accounts	125,007,912	—	—	—	—	125,007,912
Pension Funds	68,172,487	—	—	—	—	68,172,487
Debt Service - City	—	—	101,521,601	—	—	101,521,601
Debt Service - Schools	—	—	13,206,168	—	—	13,206,168
Contingency	5,000,000	—	—	—	—	5,000,000
Delinquent Tax Fund	—	10,500,000	—	—	—	10,500,000
Parking	—	—	—	—	44,806,125	44,806,125
Grant & Aid Fund	—	71,908,461	—	—	—	71,908,461
Special Capital Projects	—	—	—	10,325,000	—	10,325,000
Economic Development	—	4,761,827	—	—	—	4,761,827
Fringe Benefit Offset ⁽¹⁾	(98,974,152)	—	—	—	—	(98,974,152)
Grand Total	<u>\$569,804,028</u>	<u>\$87,170,288</u>	<u>\$114,727,769</u>	<u>\$109,649,250</u>	<u>\$198,546,564</u>	<u>\$1,079,897,899</u>

(1) For budgeting purposes, Fringe Benefits are used as an offset against expenditures since these costs are budgeted twice, both as a lump sum and as individual departmental expenditures.

**STATEMENT OF GENERAL FUND REVENUES, OTHER FINANCING SOURCES AND EXPENDITURES
FOR THE YEARS ENDED DECEMBER 31, 1998 THROUGH 2002⁽¹⁾**

	1998 ⁽²⁾	1999 ⁽²⁾	2000 ⁽²⁾	2001 ⁽²⁾	2002 ⁽²⁾
REVENUES					
Property Taxes	\$84,042,000	\$89,250,000	\$98,456,000	\$118,804,000	114,096,000
Other Taxes	10,100,000	10,283,000	12,808,000	12,688,000	2,944,000
Licenses and Permits	8,112,000	8,996,000	10,154,000	10,485,000	10,814,000
Intergovernmental	278,965,000	277,884,000	278,434,000	278,969,000	283,068,000
Charges for Services	27,727,000	37,598,000	45,383,000	54,594,000	57,749,000
Fines and Forfeitures	16,138,000	17,694,000	18,036,000	4,408,000	5,210,000
Miscellaneous Revenues	16,736,000	9,032,000	14,358,000	12,408,000	—
Contributions Received	0	0	0	0	21,107,000
Other	0	0	0	0	8,706,000
TOTAL GENERAL FUND REVENUES	\$441,820,000	\$450,737,000	\$477,629,000	\$492,356,000	\$503,694,000
Tax Stabilization Fund Withdrawals	17,600,000	12,820,000	11,250,000	5,500,000	11,000,000
Other Financing Sources and Equity					
Transfers (Net)	12,766,000	8,886,000	18,640,000	26,232,000	17,952,000
TOTAL GENERAL FUND REVENUES, TAX STABILIZATION FUND WITHDRAWALS AND OTHER FINANCING SOURCES	\$472,186,000	\$472,443,000	\$507,519,000	\$524,088,000	\$532,646,000
EXPENDITURES⁽⁵⁾					
General Government	\$65,306,000	\$132,231,000	\$157,615,000	\$162,628,000	\$179,023,000
Public Safety	248,605,000	205,717,000	220,879,000	209,521,000	211,163,000
Public Works	102,835,000	91,817,000	100,696,000	87,453,000	88,094,000
Health	17,882,000	11,401,000	11,363,000	11,237,000	10,552,000
Culture and Recreation	20,383,000	16,627,000	17,584,000	16,948,000	18,791,000
Conservation and Development	7,281,000	7,271,000	7,502,000	7,922,000	7,857,000
TOTAL EXPENDITURES⁽⁶⁾	\$462,292,000	\$465,064,000	\$515,639,000	\$495,709,000	\$515,480,000
SOURCES OVER (UNDER) EXPENDITURES	\$9,894,000⁽⁶⁾	\$7,379,000⁽⁶⁾	(\$8,120,000)⁽⁶⁾	\$28,379,000⁽⁶⁾	\$17,166,000
Fund Balance – January 1 ⁽³⁾	61,882,000	58,956,000	55,085,000	40,465,000	68,844,000
Fund Balance – December 31 ⁽⁴⁾	<u>\$71,776,000</u>	<u>\$66,335,000</u>	<u>\$46,965,000</u>	<u>\$68,844,000</u>	<u>\$86,010,000</u>

(1) For budgetary purposes only, fringe benefit revenues, cost recovery from Internal Service Funds, and purchase of Milwaukee County's delinquent taxes are revenue estimates that offset budgeted expenditures. These offsetting amounts are not revenues or expenditures for purposes of the financial statements and are excluded from the above table.

(2) Figures rounded to the nearest one thousand dollars.

(3) Beginning in 1999, fringe benefits (pensions, healthcare, etc.) are reported in total as General Government Expenditures. In prior years, fringe benefit costs were allocated to individual expenditure categories.

(4) The 2000 Total Expenditures includes payment of \$16 million of retroactive labor settlement costs for 1998 and 1999. Of this amount, \$11.4 million was provided for and reserved within the 1998 and 1999 Fund Balance.

(5) Excludes Tax Stabilization withdrawal for following year.

(6) Fund Balance Components: (000's)

	1998	1999	2000	2001	2002
Reserved for Encumbrances	\$10,974	\$9,942	\$5,026	\$5,357	\$36,585
Reserved for Carryovers	6,489	7,286	3,860	17,103	
Reserved for Future Labor Settlements	8,307	11,382	--	--	--
Reserved for inventory	6,162	6,454	6,014	5,678	5,801
Reserved for mortgage trust	319	291	281	281	276
Reserved for environmental remediation	281	281	304	303	303
Reserved for tax stabilization-2003	--	--	--	--	9,300
Reserved for tax stabilization-2004 and subsequent years' budgets and advances to other funds	--	--	--	--	33,745
Reserved for next year's budget	12,820	11,250	5,500	11,000	--
Reserved for subsequent years' budget	26,424	19,449	25,980	29,122	--
Total Fund Balance	<u>\$71,776</u>	<u>\$66,335</u>	<u>\$46,965</u>	<u>\$68,844</u>	<u>\$86,010</u>

YEAR 2002 GENERAL FUND RESULTS

Exhibits A-1 and A-3 of Appendix B present the 2002 audited financial statements for the General Fund. The City General Fund balance of Tax Stabilization reserves totaled \$43,045,000 at the end of 2002, or about 8.4 percent of 2002 Fund expenditures. This compares to \$40,122,000 (8.1% of expenditures) at 12/31/01. Total Fund balance at 12/31/02 is \$86.0 million compared to \$68.8 million at 12/31/01.

Overall, General Fund Revenues and Other Sources for 2002 exceeded expenditures by \$28,166,000, or 5.7 percent.

Total Revenues and Other Sources decreased by \$0.8 million (minus 0.2%) in 2002. This is mainly due to a \$4.7 million reduction in property tax revenues, a \$2.2 million decline in interest earnings and a reduction in other financing sources. This was partially offset by increases in charges, fines and forfeitures revenue and a \$5.5 million increase in reserves usage. The sharp decline in Other Taxes is due to an accounting change required by Government Accounting Standards Board (GASB) Statement 34. Formerly treated as revenues from the Water and Parking enterprises, GASB 34 requires that these sources now be recorded as fund transfers. Without these newly recognized transfers, Other Financing Sources and Equity Transfers would have actually declined by \$5.9 million in 2002.

Total General Fund Expenditures declined by \$0.6 million (minus 0.1%) in 2002. A \$4.0 million reduction in General Government expenditures was largely offset by increases in Culture & Recreation (plus \$1.8 million) and Public Safety (plus \$1.6 million) expenditures. A year long targeted hiring freeze and selected reductions in non-salary expenditures contributed to the slight expenditure reduction compared to 2001.

Regarding the components of General Fund Balance, the major change was a \$15.6 million increase in carry-overs and salary related encumbrances. With major labor agreements ending in 2002 and retroactive contracts yet to be negotiated at year-end, additional funds are needed to pay for the 2002 share of the new agreements when negotiated in 2003. Even with these increased reservations of Fund Balance, the year-end 2002 balance remaining for 2004 and subsequent years' budgets increased by \$4.6 million or nearly 16 percent.

Since 1998, General Fund Revenues and Other Sources have grown at an average of about 2.6 percent annually. Intergovernmental Aids remain the major funding source for the General Fund providing just over 54 percent of total sources. This compares to 59 percent in 1998. Property taxes comprised about 22 percent of total sources in 2002 versus 18 percent in 1998. Since 1998, charges, fines and forfeitures have increased in importance, growing from just over 9 percent of total sources to over 12 percent.

General Fund expenditures have grown at an average 1.8 percent annually since 1998. A major change in General Fund expenditure categories in 1999 prevents a meaningful comparison of expenditure categories.

Regarding changes in General Fund Equity, over the past four years, the Tax Stabilization Reserves account had been drawn down from its year-end 1998 level of \$33.5 million to reach a low of \$19.4 million in 1999. However, over each of the past three years, that balance has increased to now exceed the level of four years earlier, reaching \$33.7 million at year-end 2002.

For information regarding City debt levels and related debt factors, see "DEBT STRUCTURE" above.

**CITY OF MILWAUKEE
ASSESSED AND EQUALIZED VALUATIONS**

	Year 1998 For 1999 Purposes	Year 1999 For 2000 Purposes	Year 2000 For 2001 Purposes	Year 2001 For 2002 Purposes	Year 2002 For 2003 Purposes
Real Property					
Residential	\$9,093,197,600	\$9,163,659,090	\$10,292,622,989	\$10,358,670,619	\$12,027,394,755
Industrial	625,806,100	633,181,600	741,471,600	717,830,700	765,130,300
Mercantile	5,123,443,125	5,103,186,557	5,612,521,788	5,716,180,475	6,176,332,500
Total Real Property	\$14,842,446,825	\$14,900,027,247	\$16,646,616,377	\$16,792,681,794	\$18,968,857,555
Personal Property	1,229,667,210	873,822,920	936,378,220	907,102,600	897,397,660
Total Assessed Valuations	\$16,072,114,035	\$15,773,850,167	\$17,582,994,597	\$17,699,784,394	\$19,866,255,215
Equalized Valuation as determined by the State Department of Taxation is the basis used in computing the 7% statutory debt limitation of the City of Milwaukee					
	\$16,228,218,000	\$16,701,225,300	\$17,344,251,400	\$19,453,830,200	\$20,275,936,700
Ratio of Assessed to Equalized Valuation	99.04%	94.45%	101.40%	91.00%	98.00%

Note: As of the date of this Preliminary Official Statement, the assessed valuation by property class was not available for the year 2003 for 2004 purposes. As of September 2003, per the Wisconsin Department of Revenue, the 2003 Equalized Value for the City is \$21,730,754,000.

**CITY OF MILWAUKEE ASSESSED TAX RATES
(PER \$1,000 OF ASSESSED VALUATION)**

	2000	2001	2002	2003	2004
Unit of Government					
City Government ⁽¹⁾	\$9.69	\$10.49	\$10.87	\$10.15	\$9.73
Milwaukee Public Schools	10.38	9.87	10.12	9.34	8.96
Milwaukee County	6.03	5.66	6.13	5.40	5.13
Milwaukee Area Technical College	2.16	2.00	2.23	2.05	2.04
Milwaukee Metropolitan Sewerage District	1.80	1.68	1.87	1.74	1.64
Gross Tax Rate Per \$1,000	\$30.06	\$29.70	\$31.22	\$28.68	\$27.50
Less: State Tax Credit	2.00	1.69	1.66	1.43	1.36
Net Tax Rate	\$28.06	\$28.01	\$29.56	\$27.25	\$26.14

(1) Includes School Debt Service (\$0.75 in 2004).

**CITY OF MILWAUKEE
PROPERTY TAX LEVIES AND COLLECTIONS
1998-2002**

<u>Year</u>	<u>Total Tax Levy ⁽¹⁾</u>	<u>Current Tax Collections</u>	<u>Percent Of Levy Collected</u>	<u>Delinquent Tax Collections ⁽²⁾</u>	<u>Total Tax Collections</u>	<u>Total Collections As Percent Of Current Levy</u>	<u>Cumulative Delinquent Taxes ⁽³⁾</u>
1998	\$331,555,564	\$322,736,712	97.340%	\$13,084,230	\$335,820,942	101.286%	\$19,382,127
1999	339,318,287	328,557,830	96.829	8,573,206	337,131,035	99.355	21,569,378
2000	324,794,061	311,021,871	95.760	11,289,351	322,311,222	99.236	24,052,217
2001	368,371,158	355,574,882	96.526	14,805,255	370,380,137	100.545	22,043,238
2002	382,873,322	369,125,032	96.409	13,926,347	383,051,380	100.047	21,865,180

(1) Includes special assessments placed on tax roll, as well as County delinquent real and personal property taxes purchased from the County and included in tax levy collections.

(2) Collection of delinquent taxes for prior years.

(3) Includes current and prior year delinquent taxes.

As of October 2003, Current Tax Collections are approximately 96.6% of the Total Tax Levy.

(The remainder of this page has been left blank intentionally.)

COLLECTION PROCEDURES

If no payment of property taxes is received in January, the taxes become delinquent as of February 1. If the taxes are not paid when due under the 10-month installment plan, they become delinquent for legal purposes on November 15.

A letter is mailed to the taxpayer shortly after February 1st, telling of the delinquency and suggesting partial payments if full payment cannot be made. As directed by State of Wisconsin Statutes, Chapter 74, interest at the rate of 1 percent per month is charged from the preceding January 1st. Periodic follow-up letters continue to be mailed.

Taxpayers are given every opportunity to pay their delinquent taxes and satisfactory agreements are arranged to bring this about. If a property owner continues to remain delinquent and the Treasurer's Office is unable to reach an arrangement by which the owner will pay the taxes, the Treasurer's Office starts foreclosure proceedings. The City enforces its own delinquent tax collections.

Taxes are foreclosed under State of Wisconsin Statutes Section 75.521, which permits a legal action to be commenced one year from the date of delinquency. An exception to this provision is that legal action on owner occupied dwellings may be deferred up to two years if authorized by Common Council action.

The rate of current tax collections continues at this historically high level. Current collections for 2003 were approximately 96.6 percent of the total tax levied.

INSURANCE

The City has property insurance with the State of Wisconsin Local Government Property Insurance Fund. This insurance is subject to a \$25,000 deductible. The City is uninsured for liability. Under Wisconsin law, the City's exposure in tort liability is limited to \$50,000 in non-automobile cases and \$250,000 in automobile cases. The City does carry a wharfinger's liability policy on its port with coverage up to \$10 million and a deductible of \$500,000. The City follows a policy of requiring contract service providers to provide the City with indemnification and insurance as may be deemed appropriate by the City.

(The remainder of this page has been left blank intentionally.)

PENSION SYSTEM

EMPLOYEES' RETIREMENT SYSTEM

The Employees' Retirement System ("System") of the City of Milwaukee is established pursuant to Section 36 of the Milwaukee City Charter.

Membership in the System consists of specified classes of part-time and all full-time municipal employees including elected officials. Persons employed as teachers are specifically excluded from membership. Membership in the System totals approximately 13,000 active and 3,800 vested, inactive members at December 31, 2002. There were approximately 10,200 retirees and beneficiaries receiving benefits as of December 31, 2002.

Funding of the System, a defined benefit plan, is derived from employee and employer contributions. Current employee contributions to the System are based on a percentage of compensation as follows:

General Municipal ⁽¹⁾	5.5%
Elected Officials	7.0%
Police	7.0%
Fire	7.0%

(1) Including non-certified School Board, Milwaukee Area Technical College, and all Milwaukee Metropolitan Sewerage District and Wisconsin Center employees.

The City pays the employee's share of the pension contributions as well as the employer's share of pension contributions which are actuarially determined based upon normal cost and amortization of past service liability. The actuarial cost method for determining these items was changed from the "aggregate cost method" to the "projected unit credit method" as of January 1, 1995.

For the year ended December 31, 2001, the latest year for which audited figures are available, required member contributions totaled \$28.1 million and required employer contributions totaled \$144,000. Of the \$28.1 million required member contributions, \$2.5 million was funded through a transfer from the Employers Reserve Fund. Approximately 73% of these contributions were for requirements of the City of Milwaukee employees. The original cost of fund investments totaled \$3.021 billion with a corresponding market value of \$3.817 billion or 126% of the original cost at December 31, 2001.

The Milwaukee City Charter requires that an actuarial study of the System be performed at least once every five (5) years for the purpose of reviewing assumptions. The last actuarial study was completed by Buck Consultants covering experience from January 1, 1997 to December 31, 2001. The study recommended approximately 20 changes to plan assumptions, which were adopted by the Annuity and Pension Board effective January 1, 2003. The more noteworthy updates include a revised set of mortality tables, a reduction in the inflation rate, and changes in retirement rates for police, fire, and general city employees.

The latest actuarial valuation was completed on January 1, 2002. The valuation reveals the System continues to remain actuarially sound.

The Governmental Accounting Standards Board (GASB) Statement No. 25 Disclosure of "Schedule of Funding Progress" indicates an Actuarial Value of Assets of \$4.202 billion as of January 1, 2001 and an Actuarial Accrued Liability of \$2.988 billion as of that date. This results in a Funded Ratio of 140.6% after consideration of the Global Pension Settlement.

FIREMEN'S ANNUITY AND BENEFIT FUND

The Firemen's Annuity and Benefit Fund was established in 1923 pursuant to Chapter 423 of the 1923 Laws of Wisconsin. In 1947, the Firemen's Annuity and Benefit Fund was closed to new entrants. The final pre-1947 member retired in 1989.

The Principal Mutual Life Insurance Company made a proposal to provide annuities guaranteeing benefit payments to entrants and widows, exclusive of duty disability benefits, beginning in February, 1990 in consideration of a single premium payment on January 31, 1990 in the amount of \$20,419,207. The Retirement Board of the Firemen's Annuity and Benefit Fund and the Common Council authorized acceptance of the proposal and payment of the required premium on December 19, 1989. The Retirement Board and the Firemen's Annuity and Benefits Fund ceased to exist. The City will be liable to pay retirement benefits if the insurance company defaults on its obligations under the policy.

POLICEMEN'S ANNUITY AND BENEFIT FUND

The Policemen's Annuity and Benefit Fund is established pursuant to section 35 of the Milwaukee City Charter.

Membership in the Policemen's Annuity and Benefit Fund consists of all Police Department employees whose service commenced prior to January 1, 1948. Membership at March 1, 2003 totaled no active and approximately 250 retired members.

Funding is derived from employee and employer contributions. Employee contributions total six percent of compensation which is entirely paid by the City. Employer contributions are actuarially determined and based on normal cost and amortization of past service liability. There is an unfunded past service liability for the Policemen's Annuity and Benefit Fund at year-end 2001 in the amount of \$1,955,368 per the Policemen's Annuity and Benefit Fund's Annual Actuarial Statement dated June 12, 2002.

For the year ended December 31, 2001, employer contributions totaled \$4,463. Assets of the Policemen's Annuity and Benefit Fund at December 31, 2001, totaled \$8,413,154 at cost. Market value of Policemen's Annuity and Benefit Fund assets was \$8,613,542 or 102.4 percent of cost at December 31, 2001.

It is the opinion of the actuaries of the above Policemen's Annuity and Benefit Fund that based on the present amortization payments, the Policemen's Annuity and Benefit Fund is actuarially sound and that all future benefit payments will be made.

LEGAL MATTERS

LITIGATION STATEMENT

The City, its boards, officers and employees have been defendants in numerous lawsuits over the years. Experience has shown that a relatively small number of suits commenced are reduced to judgment. The City of Milwaukee does not carry a blanket policy of insurance against tort liability. In addition, §893.80, Stats. limits the amount recoverable against a political corporation, its officers, officials or employees for acts done in their official capacity to \$50,000 in tort liability for non-automobile cases and \$250,000 in automobile cases.

The City Attorney's office has currently reviewed the status of pending or threatened litigation, claims and assessments to which the office has devoted substantive attention in the form of legal consultation or representation and which individually represent maximum potential loss exposure in excess of \$1 million, existing on December 8, 2003.

U.S. Department of Justice Pattern and Practice Investigation-Milwaukee Police Department. The Equal Employment Opportunity Commission ("EEOC") conducted a pattern and practice investigation from December 1993 to September 1996. The investigation resulted in a finding of probable cause that the Fire and Police Commission ("FPC") and Milwaukee Police Department discriminated, based on race, in the areas of hiring, discipline, retaliation, and terms and conditions of employment. The EEOC sought \$5 million in total remedies for the class claims and nearly \$2 million to the individual hiring charging parties. Additionally, the EEOC requested remedies for the 15 individual "terms and conditions" charging parties in an amount totaling over \$2.5 million. The EEOC also sought an additional \$1 million in compensation to the "terms and conditions" class members. The EEOC referred the matter to the United States Department of Justice ("DOJ") in February 1997. Additional individual EEOC charges have also resulted in reasonable cause determinations and have been referred to the DOJ. The DOJ conducted a further, lengthy investigation and stated by letter dated January 2, 2001 that suit had been authorized against the City of Milwaukee and the FPC. DOJ alleges that between 1991 and 1996, African-Americans were discriminated against in terms of differential and less favorable treatment in the hiring process (failing

background investigations), and in terms and conditions of employment such as discipline, discharge, and assignment. In 2001 DOJ requested \$6.15 million in compensatory damages for a class of 100 victims of discriminatory terms and conditions of employment and an unspecified sum in back pay for a group of approximately 39 African-Americans who failed background investigations. The City considered that request unreasonable and urged DOJ re-consider its position. Since that time, DOJ has not responded. However, DOJ has declined to pursue litigation on behalf of twenty-six of the charging parties and issued individual right to sue letters to them. To date five lawsuits have been served upon the City.

U.S. Department of Justice Investigation of Firefighter Selection Procedures (Brotherhood of Firefighters v. FPC). Potential litigation concerning the Firefighter selection procedures of 1993, 1995 and 1999 has been averted and the matter settled by an approved Supplemental Order of the United States District Court dated November 30, 2001, under Civil Action Case No. 74-C-480. This matter has been previously reported in prior statements. It originated with EEOC charges filed by the Brotherhood of Firefighters on October 30, 1996 and February 26, 1997, alleging discrimination on the basis of race (African-American) with respect to: 1) hiring; 2) promotion; 3) terms and conditions of employment and 4) discipline. On December 10, 1999 the EEOC issued a Reasonable Cause Determination, and had sought damages of approximately 12 million dollars. On October 4, 2000, the EEOC referred the matter to the United States Department of Justice. The Department of Justice conducted its own investigation of the charges as well as a like and related matter: the 1999 entry-level examination for firefighter. The Department of Justice, the Brotherhood of Firefighters and the City entered into a settlement agreement concerning the recruitment and hiring charges for Cadet and entry level firefighters, and the 1993, 1995 and 1999 examinations.

The settlement did not cover the promotional charges however, since the supplemental order was entered, DOJ issued Right to Sue notices on these issues. The limitation period has expired without suit and those claims are now extinguished. The agreement is in the form of a Supplemental Order to an existing consent decree in Civil Action No. 74-C-480. The United States District Court approved the Order on November 30, 2001. The Order obligates the City of pay a total of \$1.8 million in back pay, payable in three annual installments of \$600,000 each commencing in January, 2002. In addition, the City will contribute the employer portion of Medicare Tax on the back pay award, and will provide up to 40 priority appointments of African Americans who were the victims of past discrimination to the position of Firefighter, with retroactive seniority and pension benefits. The cost of providing such retroactive pension benefits is unknown, but is anticipated to be approximately \$615,000.

Milwaukee Police Association v. City of Milwaukee, et. al. The Milwaukee Employees' Retirement System (MERS) is in the process of purchasing a computerized information system to assist in the administration of the City's pension system. The cost is expected to be in the range of 25 million dollars. According to an agreement between the City and the MERS, the cost of the system is to be paid entirely by MERS. In this lawsuit, the Milwaukee Police Association alleges that the agreement between City and MERS limits MERS's obligation to pay for the information system to no more than 3 million dollars. If the suit is successful, it is unclear whether the City would be obliged to pay the amount over 3 million. We expect, however, that the Police Association will agree that the balance of the costs are the City's obligation to pay.

Alexander, et al v. City of Milwaukee, et al., United States District Court Case No. 03-C-0611.

Starting in October 2002, seventeen white male lieutenants in the Milwaukee Police Department filed a series of EEOC charges alleging discrimination on the basis of race and gender in their failure to be promoted to the rank of Captain of Police. The EEOC concluded its investigation without finding cause, and issued notice of rights to sue letters, on April 1, 2003. The seventeen plaintiffs filed suit in the above captioned matter on June 27, 2003. The complaint alleges a class action on behalf of all white male lieutenants of the MPD who have sought or will seek promotion from the position of lieutenant to captain, or who in the future will be denied equal employment opportunity by the MPD due to their being white males. The Complaint names the City of Milwaukee, the Board of the Fire and Police Commission, and former Chief of Police Arthur Jones in his individual and official capacity. It also names each of the Fire and Police Commissioners as of the suit's commencement, in their individual and official capacities. The Complaint alleges violations of Title VII of the Civil Rights Act of 1964, as amended as well as equal protection violations actionable under 42 U.S.C. §§1983 and 1981. Plaintiffs seek compensatory damages in the sum of \$300,000 each, plus unspecified sums in punitive damages, as well as other relief available such as attorneys' fees and costs. Defendants have answered and intend to vigorously defend the action. The Court has set a scheduling order pertaining to class certification only, with an evidentiary hearing on December 18, 2003. If plaintiffs are successful, damages could exceed 5 million dollars.

Nelson, et al v. City of Milwaukee, et al, United States District Court Case No. 03-C-0984. Eleven white male lieutenants in the Milwaukee Fire Department filed EEOC charges beginning in March, 2003 alleging race discrimination in connection with the administration of the civil service examination for Fire Captain. The EEOC concluded its investigation and issued notice of rights letters, finding no cause, on July 31, 2003. The eleven plaintiffs filed suit in the above captioned matter on October 10, 2003. The complaint names the City of Milwaukee and Jane French, a Senior Personnel Analyst for the Fire and Police Commission. The complaint alleges intentional discrimination based upon race and gender (white males) in manipulating test results to allow for

promotion of African-American Fire Lieutenants at a disproportionate rate. The complaint alleges violations of Title VII of the civil Rights Act of 1964, as amended as well as equal protection violations actionable under 42 U.S.C. §§1981 and 1983. Plaintiffs seek compensatory damages in the sum of \$300,000 each, plus an unspecified sum in punitive damages. Defendants have answered and intend to vigorously defend the action. The Court has set a scheduling telephone conference for January 7, 2004. If plaintiffs are successful, damages could exceed 3 million dollars.

Estate of Justin Fields, et al. v. Nawotka, et al., Milwaukee County Circuit Court, Case No. 03-CV-010-338. This case stems from a police-related shooting, which occurred in March, 2003. Mr. Fields purportedly attempted to run the officer over with his car, after an altercation with the officer and a brief pursuit. The officer maintains the he fired his weapon at Mr. Fields, because he believed that his life was in danger. Mr. Fields died at the scene.

This case was served on November 18, 2003 and an answer will soon be filed. We anticipate removing the case to federal court. We anticipate extensive discovery, the use of a multitude of experts, and a thorough motion process. Given that this shooting involved a fatality and that the decedent was a young person, our damages exposure is significant.

With regard to other pending or threatened litigation and unasserted claims, it is the opinion of the City Attorney that such litigation and claims will not be finally determined so as to result individually or in the aggregate in a final judgment against the City which would affect its financial position.

APPENDIX B

Audited General Purpose Financial Statements of The City of Milwaukee, Wisconsin For the Year Ended December 31, 2002

CITY OF MILWAUKEE Financial Statements For the Year Ended December 31, 2002 (Excerpts From Annual Financial Report)

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page Number</u>
REPORT OF INDEPENDENT AUDITORS		B-2
BASIC FINANCIAL STATEMENTS:		
Government-wide Financial Statements:		
Statement of Net Assets	1	B-4
Statement of Activities.....	2	B-6
Fund Financial Statements:		
Balance Sheet-Governmental Funds	A-1	B-8
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	A-2	B-11
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	A-3	B-12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to Statement of Activities.....	A-4	B-15
Statement of Net Assets-Enterprise Funds	B-1	B-16
Statement of Revenues, Expenses, and Changes in Fund Net Assets-Enterprise Funds	B-2	B-19
Statement of Cash Flows-Enterprise Funds	B-3	B-20
Statement of Fiduciary Net Assets-Fiduciary Funds.....	C-1	B-22
Statement of Changes in Fiduciary Net Assets-Fiduciary Funds	C-2	B-23
Statement of Net Assets-Component Units-Enterprise Fund	D-1	B-24
Statement of Activities-Component Units-Enterprise Fund.....	D-2	B-26
NOTES TO THE FINANCIAL STATEMENTS		B-28
SUPPLEMENTARY INFORMATION		
Budgetary Comparison Schedule-General Fund.....	E-1	B-53



777 East Wisconsin Avenue
Milwaukee, WI 53202

Independent Auditors' Report

To the Honorable Members
of the Common Council
of the City of Milwaukee:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Milwaukee (the City) as of and for the year ended December 31, 2002, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of December 31, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The City has not presented a management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

As discussed in note 1 to the financial statements, the City adopted the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* during the year ended December 31, 2002.

The budgetary comparison information on Exhibit E-1 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 29, 2003 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

July 29, 2003

CITY OF MILWAUKEE
STATEMENT OF NET ASSETS
December 31, 2002
(Thousands of Dollars)

Exhibit 1

Assets	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Cash and cash equivalents	\$ 253,929	\$ 35,240	\$ 289,169	\$ 55,380
Investments	62,290	-	62,290	34,781
Receivables (net):				
Taxes	154,275	-	154,275	1,928
Accounts	28,833	24,916	53,749	-
Unbilled accounts	1,108	14,463	15,571	-
Special assessments	13,180	-	13,180	-
Notes and loans	29,703	-	29,703	70,160
Accrued interest	745	42	787	661
Due from component units	23,642	-	23,642	-
Due from primary government	-	-	-	911
Due from other governmental agencies ...	154,051	-	154,051	10,642
Inventory of materials and supplies	5,962	2,263	8,225	-
Inventory of property for resale	26	-	26	10,192
Prepaid items	759	1	760	2,368
Deferred charges	1,248	347	1,595	-
Other assets	-	299	299	2,172
Total non-capital assets	\$ 729,751	\$ 77,571	\$ 807,322	\$ 189,195
Capital assets:				
Capital assets not being depreciated:				
Land	162,342	19,280	181,622	48,707
Construction in progress	65,964	29,334	95,298	58,704
Capital assets being depreciated:				
Buildings	117,725	81,164	198,889	282,859
Infrastructure	1,221,772	533,407	1,755,179	-
Improvements other than buildings	8,199	23,010	31,209	204
Machinery and equipment	97,384	195,411	292,795	3,503
Furniture and furnishings	-	53	53	-
Nonutility property	-	540	540	-
Accumulated depreciation	(845,672)	(262,558)	(1,108,230)	(152,030)
Total Capital Assets	\$ 827,714	\$ 619,641	\$ 1,447,355	\$ 241,947
Total Assets	\$ 1,557,465	\$ 697,212	\$ 2,254,677	\$ 431,142

CITY OF MILWAUKEE
STATEMENT OF NET ASSETS
December 31, 2002
(Thousands of Dollars)

Exhibit 1 (Continued)

LIABILITIES	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Accounts payable.....	\$ 31,055	\$ 9,477	\$ 40,532	\$ 12,184
Accrued expenses	31,344	2,757	34,101	2,704
Internal balances	7,644	(7,644)	-	-
Due to component units	911	-	911	-
Due to other governmental agencies.....	1,662	-	1,662	3,322
Deferred revenue	244,540	103	244,643	3,914
Revenue anticipation notes payable.....	133,000	-	133,000	-
Other payables	-	-	-	-
Accrued interest payable	7,183	-	7,183	-
Other liabilities	-	-	-	19,955
Due to primary government:				
Due within one year	-	-	-	3,997
Due in more than one year.....	-	-	-	19,645
Long-term obligations:				
Due within one year	89,594	11,518	101,112	2,337
Due in more than one year.....	579,647	103,279	682,926	54,306
Total Liabilities	\$ 1,126,580	\$ 119,490	\$ 1,246,070	\$ 122,364
NET ASSETS				
Invested in capital assets, net of related debt	\$ 392,967	\$ 506,502	\$ 899,469	\$ 210,688
Restricted for:				
Debt Service	113,999	3,715	117,714	-
Capital Projects	21,613	-	21,613	-
Other purposes	276	-	276	17,260
Unrestricted	(97,970)	67,505	(30,465)	80,830
Total Net Assets	\$ 430,885	\$ 577,722	\$ 1,008,607	\$ 308,778

The notes to the financial statements are an integral part of this statement.

CITY OF MILWAUKEE
STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2002
(Thousands of Dollars)

Exhibit 2

		Program Revenues			
		Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs					
Primary government:					
Governmental Activities:					
General government	\$ 159,681	\$ 14,411	\$ 1,911	\$ -	
Public safety	229,167	8,081	16,253	-	
Public works	132,198	31,652	3,920	-	
Health	22,125	877	11,668	-	
Culture and recreation	22,924	2,308	2,102	-	
Conservation and development	50,828	420	32,256	-	
Capital contribution to Milwaukee Public Schools	18,725	-	-	-	
Contributions	20,378	-	21,107	-	
Interest on long-term debt.....	29,908	-	-	-	
Total Governmental Activities	<u>\$ 685,934</u>	<u>\$ 57,749</u>	<u>\$ 89,217</u>	<u>\$ -</u>	
Business-type Activities:					
Water	\$ 52,821	\$ 74,300	\$ -	\$ 356	
Sewer Maintenance	24,214	28,007	-	-	
Parking	21,893	37,735	-	-	
Port of Milwaukee	3,177	3,446	-	752	
Metropolitan Sewerage District User Charges	30,747	29,970	-	-	
Total Business-type Activities	<u>\$ 132,852</u>	<u>\$ 173,458</u>	<u>\$ -</u>	<u>\$ 1,108</u>	
Total Primary Government	<u>\$ 818,786</u>	<u>\$ 231,207</u>	<u>\$ 89,217</u>	<u>\$ 1,108</u>	
Component units:					
Housing Authority	\$ 69,483	\$ 17,004	\$ 36,612	\$ 12,756	
Redevelopment Authority	5,459	592	-	-	
Milwaukee Economic Development Authority....	1,317	2,148	-	30	
Neighborhood Improvement Development Corporation	6,626	2,457	4,871	215	
Total Component Units.....	<u>\$ 82,885</u>	<u>\$ 22,201</u>	<u>\$ 41,483</u>	<u>\$ 13,001</u>	

General revenues:

Property taxes and other taxes

State aids for General Fund

Grants and contributions not restricted to specific programs

Miscellaneous

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The notes to the financial statements are an integral part of this statement.

Net (Expenses) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (143,359)		\$ (143,359)	
(204,833)		(204,833)	
(96,626)		(96,626)	
(9,580)		(9,580)	
(18,514)		(18,514)	
(18,152)		(18,152)	
(18,725)		(18,725)	
729		729	
(29,908)		(29,908)	
<u>\$ (538,968)</u>		<u>\$ (538,968)</u>	
\$ -	\$ 21,835	\$ 21,835	
-	3,793	3,793	
-	15,842	15,842	
-	1,021	1,021	
-	(777)	(777)	
<u>\$ -</u>	<u>\$ 41,714</u>	<u>\$ 41,714</u>	
<u>\$ (538,968)</u>	<u>\$ 41,714</u>	<u>\$ (497,254)</u>	
			\$ (3,111)
			(4,867)
			861
			917
			<u>\$ (6,200)</u>
\$ 207,944	\$ -	\$ 207,944	\$ 1,865
283,068	-	283,068	-
-	-	-	508
57,999	686	58,685	2,621
11,151	11,151	-	-
<u>\$ 560,162</u>	<u>\$ (10,465)</u>	<u>\$ 549,697</u>	<u>\$ 4,994</u>
\$ 21,194	\$ 31,249	\$ 52,443	\$ (1,206)
409,691	546,473	956,164	309,984
<u>\$ 430,885</u>	<u>\$ 577,722</u>	<u>\$ 1,008,607</u>	<u>\$ 308,778</u>

CITY OF MILWAUKEE
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2002
(Thousands of Dollars)

Exhibit A-1

	General
ASSETS	
Assets:	
Cash and cash equivalents.....	\$ 116,951
Investments	-
Receivables (net):	
Taxes	99,518
Accounts	21,935
Unbilled accounts.....	1,108
Special assessments	-
Notes and loans	559
Accrued interest.....	470
Due from other funds	11,363
Due from component units.....	3,997
Due from other governmental agencies.....	1,116
Advances to other funds	13,027
Inventory of materials and supplies	5,775
Inventory of property for resale.....	26
Prepaid items.....	655
Restricted Assets:	
Investments	276
Total Assets	<u>\$ 276,776</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 19,022
Accrued expenses	30,668
Due to other funds	3,757
Due to component units.....	-
Due to other governmental agencies	7
Deferred revenue	137,312
Revenue anticipation notes payable	-
Advances from other funds.....	-
Total Liabilities	<u>\$ 190,766</u>
Fund Balances:	
Reserved for debt service.....	\$ -
Reserved for delinquent taxes receivable.....	-
Reserved for encumbrances, prepaids, and carryovers	36,585
Reserved for inventory.....	5,801
Reserved for mortgage trust	276
Reserved for environmental remediation	303
Reserved for tax stabilization - 2003.....	9,300
Reserved for tax stabilization - 2004 and subsequent years' budgets and advances to other funds	33,745
Unreserved:	
Special assessment (deficit)	-
Total Fund Balances	<u>\$ 86,010</u>
Total Liabilities and Fund Balances	<u>\$ 276,776</u>

The notes to the financial statements are an integral part of this statement.

General Obligation Debt Service	Public Debt Amortization	Capital Projects	Nonmajor Governmental Funds	Total
\$ 75,336	\$ 11,270	\$ 35,883	\$ 14,489	\$ 253,929
-	62,014	-	-	62,014
39,833	-	6,797	8,127	154,275
-	-	2,494	4,404	28,833
-	-	-	-	1,108
-	-	13,180	-	13,180
23,449	-	-	5,695	29,703
25	249	-	1	745
-	-	-	-	11,363
19,645	-	-	-	23,642
133,000	-	6,026	13,909	154,051
-	-	-	-	13,027
-	-	187	-	5,962
-	-	-	-	26
104	-	-	-	759
-	-	-	-	-
-	-	-	-	276
<u>\$ 291,392</u>	<u>\$ 73,533</u>	<u>\$ 64,567</u>	<u>\$ 46,625</u>	<u>\$ 752,893</u>
\$ 104	\$ -	\$ 5,234	\$ 6,695	\$ 31,055
-	-	292	384	31,344
7,844	-	-	7,406	19,007
-	-	-	911	911
-	-	100	1,555	1,662
109,978	-	24,301	16,089	287,680
133,000	-	-	-	133,000
-	-	13,027	-	13,027
<u>\$ 250,926</u>	<u>\$ -</u>	<u>\$ 42,954</u>	<u>\$ 33,040</u>	<u>\$ 517,686</u>
\$ 40,466	\$ 73,533	\$ -	\$ 8,347	\$ 122,346
-	-	-	5,238	5,238
-	-	33,323	-	69,908
-	-	187	-	5,988
-	-	-	-	276
-	-	-	-	303
-	-	-	-	9,300
-	-	-	-	-
-	-	-	-	33,745
-	-	(11,897)	-	(11,897)
<u>\$ 40,466</u>	<u>\$ 73,533</u>	<u>\$ 21,613</u>	<u>\$ 13,585</u>	<u>\$ 235,207</u>
<u>\$ 291,392</u>	<u>\$ 73,533</u>	<u>\$ 64,567</u>	<u>\$ 46,625</u>	<u>\$ 752,893</u>

This Page Has Been Intentionally Left Blank

CITY OF MILWAUKEE
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS**
 FOR THE YEAR ENDED DECEMBER 31, 2002
(Thousands of Dollars)

Exhibit A-2

Fund balances - total governmental funds \$ 235,207

Amounts reported for governmental activities in the statement of net assets (Exhibit A-1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$ 162,342	
Buildings, net of \$57,171 accumulated depreciation	60,554	
Infrastructure, net of \$710,098 accumulated depreciation	511,674	
Improvements Other than buildings, net of \$6,336 accumulated depreciation	1,863	
Machinery and equipment, net of \$72,067 accumulated depreciation	25,317	
Construction work in progress	<u>65,964</u>	
		827,714

Deferred charges for debt issuance costs are not available to pay for current-period expenditures and therefore are deferred in the funds. 1,248

Some revenues are deferred in the funds because they are not available to pay current period's expenditures.

Taxes to be collected after year end	\$ 7,668	
Special assessments to be collected after year end	12,023	
Notes and loans receivable to repay long-term bonds and notes	<u>23,449</u>	
		43,140

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities - both current and long-term - are reported in the statement of net assets. Also, during the year, the City refunded some of its existing debt. The payment to the refunded bond escrow consisted of the proceeds of the new debt \$136,629 plus a premium of \$15,474 less issuance costs of \$1,104 to retire \$139,135 of old debt. The total deferred amount; old debt \$139,135 less the new debt of \$136,629 less the premium plus the issuance costs equal to \$11,864 is being amortized as interest expense. The premium will be amortized as an adjustment to interest expense over the life of the new bonds.

Accrued interest payable	\$ (7,183)	
Bonds and Notes Payable	(591,155)	
Deferred amount on refunding	11,592	
Unamortized premiums	(18,776)	
Compensated absences	(36,859)	
Claims and judgments	<u>(34,043)</u>	
		<u>676,424</u>

Total net assets of governmental activities (Exhibit 1) **\$ 430,885**

The notes to the financial statements are an integral part of this reconciliation.

CITY OF MILWAUKEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2002
(Thousands of Dollars)

Exhibit A-3

General

Revenues:	
Property taxes	\$ 114,096
Other taxes	2,944
Special assessments	-
Licenses and permits	10,814
Intergovernmental	283,068
Charges for services	57,749
Fines and forfeits	5,210
Contributions received	21,107
Other	8,706
Total Revenues	<u>\$ 503,694</u>
Expenditures:	
Current:	
General government	\$ 179,023
Public safety	211,163
Public works	88,094
Health	10,552
Culture and recreation	18,791
Conservation and development	7,857
Capital outlay	-
Debt Service:	-
Principal retirement	-
Interest	-
Bond issuance costs	-
Total Expenditures	<u>\$ 515,480</u>
Excess (deficiency) of Revenues over Expenditures	<u>\$ (11,786)</u>
Other Financing Sources (Uses):	
General obligation bonds and notes issued	\$ -
Refunding bonds issued	-
Payment to refunded bond escrow agent	-
Issuance premium	-
Transfers in	28,955
Transfers out	(3)
Total Other Financing Sources and Uses	<u>\$ 28,952</u>
Net Change in Fund Balances	\$ 17,166
Fund Balances - Beginning, as Restated	<u>68,844</u>
Fund Balances - Ending	<u>\$ 86,010</u>

The notes to the financial statements are an integral part of this statement.

Exhibit A-3 (Continued)

General Obligation Debt Service	Public Debt Amortization	Capital Projects	Nonmajor Governmental Funds	Total
\$ 58,916	\$ -	\$ 10,281	\$ 404	\$ 183,697
12,368	1,267	-	-	16,579
-	-	4,053	-	4,053
-	-	-	-	10,814
1,092	-	4,460	68,110	356,730
5,977	-	-	-	63,726
-	-	-	-	5,210
-	-	-	-	21,107
5,923	7,715	2,961	1,501	26,806
<u>\$ 84,276</u>	<u>\$ 8,982</u>	<u>\$ 21,755</u>	<u>\$ 70,015</u>	<u>\$ 688,722</u>
\$ -	\$ 3	\$ -	\$ 4,020	\$ 183,046
-	-	-	16,253	227,416
-	-	-	3,934	92,028
-	-	-	11,667	22,219
-	-	-	2,102	20,893
-	-	-	32,256	40,113
-	-	93,515	-	93,515
-	-	-	-	-
69,311	6,735	-	-	76,046
27,420	1,560	-	-	28,980
1,104	-	-	-	1,104
<u>\$ 97,835</u>	<u>\$ 8,298</u>	<u>\$ 93,515</u>	<u>\$ 70,232</u>	<u>\$ 785,360</u>
<u>\$ (13,559)</u>	<u>\$ 684</u>	<u>\$ (71,760)</u>	<u>\$ (217)</u>	<u>\$ (96,638)</u>
\$ -	\$ -	\$ 88,913	\$ 12,925	\$ 101,838
138,044	-	-	-	138,044
(150,999)	-	-	-	(150,999)
19,313	-	-	-	19,313
18,821	-	-	-	47,776
(13,291)	-	(5,016)	(18,315)	(36,625)
<u>\$ 11,888</u>	<u>\$ -</u>	<u>\$ 83,897</u>	<u>\$ 5,390</u>	<u>\$ 119,347</u>
\$ (1,671)	\$ 684	\$ 12,137	\$ (5,607)	\$ 22,709
42,137	72,849	9,476	19,192	212,498
<u>\$ 40,466</u>	<u>\$ 73,533</u>	<u>\$ 21,613</u>	<u>\$ 13,585</u>	<u>\$ 235,207</u>

This Page Has Been Intentionally Left Blank

CITY OF MILWAUKEE
**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**
FOR THE YEAR ENDED DECEMBER 31, 2002
(Thousands of Dollars)

Exhibit A-4

Net change in fund balances - total governmental funds (Exhibit A-3) \$ 22,709

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$63,384) exceeded depreciation (\$39,702) in the current period. 23,682

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Taxes collected after year end	\$ 7,668	
Special assessments deferred revenue beginning of the year \$12,436 less deferred at end of the year \$12,023 equals amount collected during the year	(413)	
		7,255

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Debt issued:		
Bonds and notes issued	\$(138,044)	
Refunding bonds issued	(101,838)	
Issuance premiums	(19,313)	
Repayments:		
Payment to refunding bond escrow	150,999	
Principal retirement	76,021	
Bond issuance costs	1,288	
Amortization:		
Issuance costs	(40)	
Premiums	537	
Deferred amount on refunding	(272)	
		(30,662)

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues.

The adjustment combines the net changes of the following balances.

Compensated absences	\$ (3,499)	
Claims and judgments	2,902	
Accrued interest on bonds and notes	(1,193)	
		1,790

Changes in net assets of governmental activities (Exhibit 2) **\$ 21,194**

The notes to the financial statements are an integral part of this reconciliation.

CITY OF MILWAUKEE
STATEMENT OF NET ASSETS
ENTERPRISE FUNDS
 DECEMBER 31, 2002
(Thousands of Dollars)

Exhibit B-1

ASSETS	Water Works	Sewer Maintenance	Parking	Nonmajor Enterprise Funds	Total
Current Assets:					
Cash and cash equivalents.....	\$ 17,642	\$ 588	\$ 12,342	\$ 953	\$ 31,525
Receivables (net):					
Accounts	10,658	6,956	-	7,302	24,916
Unbilled accounts.....	9,669	2,848	-	1,946	14,463
Accrued interest	35	7	-	-	42
Due from other funds	10,915	492	-	548	11,955
Inventory of materials and supplies	2,263	-	-	-	2,263
Prepaid items.....	-	-	1	-	1
Deferred charges	13	334	-	-	347
Other assets	299	-	-	-	299
Total Current Assets.....	<u>\$ 51,494</u>	<u>\$ 11,225</u>	<u>\$ 12,343</u>	<u>\$ 10,749</u>	<u>\$ 85,811</u>
Noncurrent assets:					
Restricted cash and cash equivalents	-	\$ 3,715	\$ -	-	\$ 3,715
Capital assets:					
Capital assets not being depreciated:					
Land	1,585	-	9,415	8,280	19,280
Construction in progress.....	12,210	17,124	-	29,334	
Capital assets being depreciated:					
Buildings.....	22,430	49,035	9,699	81,164	
Infrastructure	261,643	271,764	-	-	533,407
Improvements other than buildings.....	-	-	5,439	17,571	23,010
Machinery and equipment	188,696	1,288	592	4,835	195,411
Furniture and furnishings	-	22	-	31	53
Nonutility property.....	540	-	-	-	540
Accumulated depreciation	(137,143)	(84,900)	(19,002)	(21,513)	(262,558)
Total Noncurrent Assets	<u>\$ 349,961</u>	<u>\$ 209,013</u>	<u>\$ 45,479</u>	<u>\$ 18,903</u>	<u>\$ 623,356</u>
Total Assets	<u>\$ 401,455</u>	<u>\$ 220,238</u>	<u>\$ 57,822</u>	<u>\$ 29,652</u>	<u>\$ 709,167</u>

CITY OF MILWAUKEE
STATEMENT OF NET ASSETS
ENTERPRISE FUNDS
DECEMBER 31, 2002
(Thousands of Dollars)

Exhibit B-1(Continued)

	Water Works	Sewer Maintenance	Parking	Nonmajor Enterprise Funds	Total
LIABILITIES					
Current Liabilities:					
Accounts payable	\$ 1,117	\$ 1,590	\$ 774	\$ 5,996	\$ 9,477
Accrued expenses	1,334	722	448	140	2,644
Compensated absences	943	-	-	-	943
Due to other funds	1,549	-	-	2,762	4,311
General obligation debt payable - current.....	4,680	-	3,746	366	8,792
Revenue bonds payable - current.....	783	-	-	-	783
Deferred revenue.....	-	-	103	-	103
Total Current Liabilities	<u>\$ 10,406</u>	<u>\$ 2,312</u>	<u>\$ 5,071</u>	<u>\$ 9,264</u>	<u>\$ 27,053</u>
Current Liabilities Payable from Restricted Assets:					
Revenue bonds payable	\$ -	\$ 1,000	\$ -	\$ -	\$ 1,000
Accrued interest payable	-	113	-	-	113
Total Current Liabilities Payable from Restricted Assets	<u>\$ -</u>	<u>\$ 1,113</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,113</u>
Noncurrent Liabilities:					
General obligation debt.....	\$ 38,087	\$ -	\$ 18,861	\$ 2,973	\$ 59,921
Revenue bonds payable	14,548	28,810	-	-	43,358
Total Noncurrent Liabilities	<u>\$ 52,635</u>	<u>\$ 28,810</u>	<u>\$ 18,861</u>	<u>\$ 2,973</u>	<u>\$ 103,279</u>
Total Liabilities	<u>\$ 63,041</u>	<u>\$ 32,235</u>	<u>\$ 23,932</u>	<u>\$ 12,237</u>	<u>\$ 131,445</u>
Net Assets:					
Invested in capital assets, net of related debt	\$ 291,863	\$ 176,203	\$ 22,872	\$ 15,564	\$ 506,502
Restricted	-	3,715	-	-	3,715
Unrestricted	<u>46,551</u>	<u>8,085</u>	<u>11,018</u>	<u>1,851</u>	<u>67,505</u>
Total Net Assets	<u>\$ 338,414</u>	<u>\$ 188,003</u>	<u>\$ 33,890</u>	<u>\$ 17,415</u>	<u>\$ 577,722</u>

The notes to the financial statements are an integral part of this statement.

This Page Has Been Intentionally Left Blank

CITY OF MILWAUKEE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
ENTERPRISE FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2002
 (Thousands of Dollars)

Exhibit B-2

	Water Works	Sewer Maintenance	Parking	Nonmajor Enterprise Funds	Total
	Water Works	Sewer Maintenance	Parking	Nonmajor Enterprise Funds	Total
Operating Revenues:					
Charges for Services:					
Water sales.....	\$ 60,906	\$ -	\$ -	\$ -	\$ 60,906
Statutory sewer user fee	-	-	-	29,063	29,063
Sewer maintenance fee	-	27,922	-	-	27,922
Rent	-	-	6,829	3,446	10,275
Fire protection service	5,473	-	-	-	5,473
Parking meters	-	-	3,998	-	3,998
Parking permits	-	-	2,445	-	2,445
Vehicle towing	-	-	3,800	-	3,800
Parking forfeitures.....	-	-	20,232	-	20,232
Other.....	7,480	85	345	907	8,817
Total Operating Revenues	<u>\$ 73,859</u>	<u>\$ 28,007</u>	<u>\$ 37,649</u>	<u>\$ 33,416</u>	<u>\$172,931</u>
Operating Expenses:					
Milwaukee Metropolitan Sewerage District charges	\$ -	\$ -	\$ -	\$ 25,250	\$ 25,250
Employee services	-	6,857	5,716	1,449	14,022
Administrative and general	4,486	-	-	37	4,523
Depreciation	12,027	3,707	2,190	713	18,637
Transmission and distribution	16,803	-	-	3,704	20,507
Services, supplies and materials	-	8,426	12,258	958	21,642
Water treatment.....	8,463	-	-	-	8,463
Water pumping	5,595	-	-	-	5,595
Billing and collection	2,601	-	-	1,637	4,238
Total Operating Expenses.....	<u>\$ 49,975</u>	<u>\$ 18,990</u>	<u>\$ 20,164</u>	<u>\$ 33,748</u>	<u>\$122,877</u>
Operating Income (Loss).....	<u>\$ 23,884</u>	<u>\$ 9,017</u>	<u>\$ 17,485</u>	<u>\$ (332)</u>	<u>\$ 50,054</u>
Nonoperating Revenues (Expenses):					
Investment income	\$ 386	\$ 300	\$ -	\$ -	\$ 686
Interest expense	(2,846)	(1,319)	(1,194)	(176)	(5,535)
Gain (loss) on disposal of fixed assets	-	(60)	(535)	-	(595)
Other	441	(3,845)	86	-	3,318
Total Nonoperating Revenues (Expenses)	<u>\$ (2,019)</u>	<u>\$ 4,924</u>	<u>\$ 1,643</u>	<u>\$ 176</u>	<u>\$ 8,762</u>
Income (Loss) before Contributions and Transfers ..	<u>\$ 21,865</u>	<u>\$ 4,093</u>	<u>\$ 15,842</u>	<u>\$ (508)</u>	<u>\$ 41,292</u>
Capital contributions.....	\$ 356	\$ -	\$ -	\$ 752	\$ 1,108
Transfers in	7,395	-	-	532	7,927
Transfers out	<u>(7,974)</u>	<u>\$ -</u>	<u>(9,895)</u>	<u>(1,209)</u>	<u>(19,078)</u>
Change in Net Assets	<u>\$ 21,642</u>	<u>\$ 4,093</u>	<u>\$ 5,947</u>	<u>\$ (433)</u>	<u>\$ 31,249</u>
Total Net Assets - Beginning, as Restated	<u>316,772</u>	<u>183,910</u>	<u>27,943</u>	<u>17,848</u>	<u>546,473</u>
Total Net Assets - Ending.....	<u>\$338,414</u>	<u>\$ 188,003</u>	<u>\$ 33,890</u>	<u>\$ 17,415</u>	<u>\$577,722</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MILWAUKEE
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Thousands of Dollars)

Exhibit B-3

	Water Works	Sewer Maintenance	Parking	Nonmajor Enterprise Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers and users	\$ 71,132	\$ 28,606	\$ 37,362	\$ 30,950	\$ 168,050
Cash receipts from other funds	496	-	-	-	496
Other operating cash receipts	-	85	329	-	414
Payments to suppliers	(15,368)	(8,015)	(12,407)	(33,613)	(69,403)
Payments to employees	(19,800)	(6,807)	(5,661)	(1,455)	(33,723)
Payments from other funds	-	-	-	2,303	2,303
Payments to other funds	(15,557)	(12,051)	-	-	(27,608)
Other payments	-	-	(1)	-	(1)
Net Cash Provided by (Used for) Operating Activities	<u>\$ 20,903</u>	<u>\$ 1,818</u>	<u>\$ 19,622</u>	<u>\$ (1,815)</u>	<u>\$ 40,528</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers from other funds	\$ 7,395	\$ -	\$ 1,172	\$ -	\$ 8,567
Transfers to other funds	(7,974)	-	(14,578)	(1,205)	(23,757)
Other nonoperating expense	-	(3,845)	-	-	3,845
Net Cash Used for Noncapital Financing Activities	<u>\$ (579)</u>	<u>\$ (3,845)</u>	<u>\$ (13,406)</u>	<u>\$ (1,205)</u>	<u>\$ (19,035)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Capital contributions	\$ -	\$ -	\$ 3,511	\$ 1,300	\$ 4,811
Proceeds from sale of bonds and notes	17,953	-	4,960	1,215	24,128
Acquisition of property, plant and equipment	(10,687)	(15,971)	(949)	-	(27,607)
Retirement of bonds, notes and revenue bonds	(5,717)	-	(3,511)	(353)	(9,581)
Payment to refunded bond escrow agent	(18,405)	-	(4,432)	(1,088)	(23,925)
Interest paid	(2404)	(1,357)	(1,078)	(153)	(4,992)
Transfers to other funds	-	-	-	176	176
Repairs and restorations	-	-	-	(196)	(196)
Other	-	-	86	-	86
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>\$ (19,260)</u>	<u>\$ (17,328)</u>	<u>\$ (1,413)</u>	<u>\$ 901</u>	<u>\$ (37,100)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Investment income	\$ 386	\$ 293	\$ -	\$ -	\$ 679
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 1,450	\$ (19,062)	\$ 4,803	\$ (2,119)	\$ (14,928)
Cash and Cash Equivalents - Beginning	16,192	23,365	7,539	3,072	50,168
Cash and Cash Equivalents - Ending	<u>\$ 17,642</u>	<u>\$ 4,303</u>	<u>\$ 12,342</u>	<u>\$ 953</u>	<u>\$ 35,240</u>

CITY OF MILWAUKEE
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2002
(Thousands of Dollars)

Exhibit B-3 (Continued)

	Water Works	Sewer Maintenance	Parking	Nonmajor Enterprise Funds	Total
	Water Works	Sewer Maintenance	Parking	Nonmajor Enterprise Funds	Total
Cash and Cash Equivalents at Year End Consist of:					
Unrestricted Cash	\$ 17,642	\$ 588	\$ 12,342	\$ 953	\$ 31,525
Restricted Cash	<u>-</u>	<u>3,715</u>	<u>-</u>	<u>-</u>	<u>3,715</u>
	<u>\$ 17,642</u>	<u>\$ 4,303</u>	<u>\$ 12,342</u>	<u>\$ 953</u>	<u>\$ 35,240</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 23,884	\$ 9,017	\$ 17,485	\$ (332)	\$ 50,054
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	12,027	3,707	2,190	713	18,637
Changes in assets and liabilities:					
Receivables	(3,309)	966	-	(2,466)	(4,809)
Due from other funds	(11,250)	(283)	-	(193)	(11,726)
Inventories	350	3	-	-	353
Prepaid items	16	-	(1)	-	15
Deferred charges	-	15	-	-	15
Other assets	68	-	-	-	68
Accounts payable	(1,365)	393	(149)	(2,026)	(3,147)
Accrued liabilities	41	51	55	(7)	140
Due to other funds	-	(12,051)	-	2,496	(9,555)
Deferred revenue	<u>441</u>	<u>-</u>	<u>42</u>	<u>-</u>	<u>483</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ 20,903</u>	<u>\$ 1,818</u>	<u>\$ 19,622</u>	<u>\$ (1,815)</u>	<u>\$ 40,528</u>

Non-cash Activities:

During the year, the city disposed of parking assets of \$535 net book value.

During the year, water mains and related property, installed by others were deeded to the Water Works
in the amount of \$356.

During the year, the Sewer Maintenance Fund donated or disposed of fixed assets with a net value of \$2,689.

The notes to the financial statements are an integral part of this statement.

CITY OF MILWAUKEE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2002
(Thousands of Dollars)

Exhibit C-1

	Pension and Other Employee Benefit Trusts	Private- Purpose Trusts	Agency Funds
ASSETS			
Cash and cash equivalents	\$ 112	\$ 2,207	\$ 247,531
Investments	-	5,414	-
Receivables (net):			
Taxes	-	-	1
Notes and loans	-	467	-
Restricted Assets:			
Investments	<u>340,802</u>	<u>-</u>	<u>-</u>
 Total Assets	 <u>\$ 340,914</u>	 <u>\$ 8,088</u>	 <u>\$ 247,532</u>
LIABILITIES			
Liabilities:			
Accounts payable	\$ 309	\$ 16	\$ 2,406
Due to other governmental agencies	<u>-</u>	<u>-</u>	<u>245,126</u>
 Total Liabilities	 <u>\$ 309</u>	 <u>\$ 16</u>	 <u>\$ 247,532</u>
Net Assets			
Employees' pension benefits and other purposes	 <u>\$ 340,605</u>	 <u>\$ 8,072</u>	

The notes to the financial statements are an integral part of this statement.

CITY OF MILWAUKEE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2002
(Thousands of Dollars)

Exhibit C-2

	Pension and Other Employee Benefit Trusts	Private- Purpose Trusts
Additions		
Contributions:		
Plan members	\$ 27,515	\$ -
Employer	3,434	-
Private donations	-	1,646
Total Contributions	<u>\$ 30,949</u>	<u>\$ 1,646</u>
Investment earnings:		
Net (depreciation) appreciation in fair value of investments	\$ (34,103)	\$ 396
Interest	117	317
Total Investment Earnings	<u>\$ (33,986)</u>	<u>\$ 713</u>
Total Additions	<u>\$ (3,037)</u>	<u>\$ 2,359</u>
Deductions		
Benefits	\$ 30,551	\$ -
Fees remitted from Trust	-	571
Other	-	944
Administrative expenses	331	-
Total Deductions	<u>\$ 30,882</u>	<u>\$ 1,515</u>
Change in Net Assets	\$ (33,919)	\$ 844
Net Assets - Beginning as Restated	<u>374,524</u>	<u>7,228</u>
Net Assets - Ending	<u>\$ 340,605</u>	<u>\$ 8,072</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MILWAUKEE
COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
DECEMBER 31, 2002
(Thousands of Dollars)

Exhibit D-1

	Housing Authority	Redevelopment Authority	Milwaukee Economic Development Corporation	Neighborhood Improvement Development Corporation	Total
ASSETS					
Current Assets:					
Cash and cash equivalents.....	\$ 17,545	\$ 16,191	\$ 18,764	\$ 2,880	\$ 55,380
Investments.....	13,380	20,372	729	300	34,781
Receivables (net):					
Accounts	479	1,059	-	390	1,928
Notes and loans	7,463	18,639	29,314	14,744	70,160
Accrued interest	-	149	334	178	661
Due from primary government	-	-	-	911	911
Due from other governmental agencies.....	5,820	1,500	3,322	-	10,642
Inventory of property for resale	-	7,909	-	2,283	10,192
Prepaid items	2,366	-	-	2	2,368
Other assets.....	<u>632</u>	<u>1,011</u>	<u>529</u>	<u>-</u>	<u>2,172</u>
Total Noncapital Assets	<u>\$ 47,685</u>	<u>\$ 66,830</u>	<u>\$ 52,992</u>	<u>\$ 21,688</u>	<u>\$ 189,195</u>
Capital assets:					
Capital assets not being depreciated:					
Land.....	\$ 39,600	\$ 9,107	\$ -	\$ -	\$ 48,707
Construction work in progress	50,611	8,093	-	-	58,704
Capital assets being depreciated.....					
Buildings	282,859	-	-	-	282,859
Improvements other than buildings.....	204	-	-	-	204
Machinery and equipment.....	3,366	-	55	82	3,503
Accumulated depreciation.....	<u>(151,956)</u>	<u>-</u>	<u>(30)</u>	<u>(44)</u>	<u>(152,030)</u>
Total Capital Assets, Net of Depreciation	<u>\$ 224,684</u>	<u>\$ 17,200</u>	<u>\$ 25</u>	<u>\$ 38</u>	<u>\$ 241,947</u>
Total Assets	<u>\$ 272,369</u>	<u>\$ 84,030</u>	<u>\$ 53,017</u>	<u>\$ 21,726</u>	<u>\$ 431,142</u>

CITY OF MILWAUKEE
COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
DECEMBER 31, 2002
(Thousands of Dollars)

Exhibit D-1 (Continued)

	Housing Authority	Redevelopment Authority	Milwaukee Economic Development Corporation	Neighborhood Improvement Development Corporation	Total
LIABILITIES					
Current Liabilities:					
Accounts payable.....	\$ 8,582	\$ 3,054	\$ 138	\$ 410	\$ 12,184
Accrued expenses	2,639	65	-	-	2,704
Due to primary government	1,880	-	2,117	3,997	
Due to other governmental agencies	-	3,322	-	-	3,322
Bonds and notes payable - current	555	-	-	1,782	2,337
Deferred revenue	209	841	237	1,287	
Other liabilities.....	<u>1,108</u>	<u>7,334</u>	<u>-</u>	<u>125</u>	<u>8,567</u>
Total Current Liabilities	<u>\$ 14,973</u>	<u>\$ 13,775</u>	<u>\$ 979</u>	<u>\$ 4,671</u>	<u>\$ 34,398</u>
Noncurrent Liabilities					
Due to primary government	\$ -	\$ 17,239	\$ 2,406	\$ -	\$ 19,645
Deferred revenue	-	2,627	-	-	2,627
Other liabilities.....	9,650	1,738	-	11,388	
Notes payable	8,874	-	-	-	8,874
Revenue bonds payable	16,428	27,504	-	-	43,932
Advances from other organizations	<u>1,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,500</u>
Total Noncurrent Liabilities	<u>\$ 36,452</u>	<u>\$ 49,108</u>	<u>\$ 2,406</u>	<u>\$ -</u>	<u>\$ 87,966</u>
Total Liabilities	<u>\$ 51,425</u>	<u>\$ 62,883</u>	<u>\$ 3,385</u>	<u>\$ 4,671</u>	<u>\$ 122,364</u>
NET ASSETS:					
Invested in capital assets, net of related debt.....	\$ 203,868	\$ 6,757	\$ 25	\$ 38	\$ 210,688
Restricted	2,057	-	777	14,426	17,260
Unrestricted	<u>15,019</u>	<u>14,390</u>	<u>48,830</u>	<u>2,591</u>	<u>80,830</u>
Total Net Assets.....	<u>\$ 220,944</u>	<u>\$ 21,147</u>	<u>\$ 49,632</u>	<u>\$ 17,055</u>	<u>\$ 308,778</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MILWAUKEE
COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
DECEMBER 31, 2002
(Thousands of Dollars)

Exhibit D-2

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Services	Grants and Contributions	Grants and Contributions
Housing Authority				
Low income housing	\$ 69,483	\$ 17,004	\$ 36,612	\$ 12,756
Redevelopment Authority				
Prevention and elimination of blight	5,459	592	-	-
Milwaukee Economic Development Corporation				
Increase employment & expansion of business	1,317	2,148	-	30
Neighborhood Improvement Development Corp.				
Housing improvements	<u>6,626</u>	<u>2,457</u>	<u>4,871</u>	<u>215</u>
Total Component Units	<u>\$ 82,885</u>	<u>\$ 22,201</u>	<u>\$ 41,483</u>	<u>\$ 13,001</u>

General revenues:

Payment from City of Milwaukee
Grants, entitlements, and contributions not
restricted to specific programs

Unrestricted investment earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets - Beginning, as Restated

Net Assets - Ending

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets				
Housing Authority	Redevelopment Authority	Milwaukee Economic Development Corporation	Neighborhood Improvement Development Corporation	Total
\$ (3,111)	\$ -	\$ -	\$ -	\$ (3,111)
-	(4,867)	-	-	(4,867)
-	-	861	-	861
-	-	-	917	917
<u>\$ 3,111</u>	<u>\$ (4,867)</u>	<u>\$ 861</u>	<u>\$ 917</u>	<u>\$ (6,200)</u>
\$ -	\$ 1,865	\$ -	\$ -	\$ 1,865
-	508	-	-	508
827	1,127	298	37	2,289
<u>57</u>	<u>275</u>	<u>-</u>	<u>-</u>	<u>332</u>
<u>\$ 884</u>	<u>\$ 3,775</u>	<u>\$ 298</u>	<u>\$ 37</u>	<u>\$ 4,994</u>
\$ (2,227)	\$ (1,092)	\$ 1,159	\$ 954	\$ (1,206)
<u>223,171</u>	<u>22,239</u>	<u>48,473</u>	<u>16,101</u>	<u>309,984</u>
<u>\$220,944</u>	<u>\$ 21,147</u>	<u>\$ 49,632</u>	<u>\$ 17,055</u>	<u>\$ 308,778</u>

CITY OF MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED December 31, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying, basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies.

A. Reporting Entity

The City of Milwaukee (the "City") was incorporated on January 31, 1846, and operates under a Council-Mayor form of government. These financial statements present the City (the primary government) and other organizations, including component units, for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The component units discussed below are legally separate organizations for which the elected officials of the City are accountable. The City is considered financially accountable if it appoints a voting majority of the organization's governing body and is able to impose its will on the organization, or there is a potential for the organization to provide specific financial benefits to or burdens on the City. The City may be financially accountable if an organization is fiscally dependent on the primary government.

Discretely Presented Component Units

The component units columns in the government-wide financial statements includes the financial data of the City's component units. They are reported in a separate column to emphasize that they are legally separate from the City. The City has the following discretely presented component units:

Housing Authority - This entity is used to account for the Federal and State grants relating primarily to low-income housing and rental assistance programs. The entire governing board is appointed by the Mayor of the City. The daily operations of the Housing Authority of the City of Milwaukee (HACM) are managed by City employees.

Redevelopment Authority - The Redevelopment Authority of the City of Milwaukee (RACM) is responsible for activities related to the prevention and elimination of blighted conditions in the City. The City appoints all members of the Board and approves the budget.

Milwaukee Economic Development Corporation - The Milwaukee Economic Development Corporation (MEDC) is a nonprofit organization formed to promote economic development within the City. The principal objective of the corporation is to benefit the community by fostering increased employment through expansion of business and industry within the metropolitan Milwaukee area. MEDC's primary source of funds is interest on loans originally granted through the City.

Neighborhood Improvement Development Corporation - The Neighborhood Improvement Development Corporation (NIDC) is a nonprofit organization established to promote reinvestment in both housing and commercial structures within the City. NIDC programs encourage private lending institutions and property owners to make improvements to the community's homes and businesses. Corporate officers of NIDC are provided by the City and daily operations are managed by City employees.

Financial statements of the individual component units can be obtained from their respective administrative offices. Addresses of the component units are as follows: HACM, 809 North Broadway, 3rd Floor, Milwaukee, Wisconsin 53202; RACM 809 North Broadway, 2nd Floor, Milwaukee, Wisconsin 53202; MEDC, 809 North Broadway, 2nd Floor, Milwaukee, Wisconsin 53202; NIDC, 841 North Broadway, Room 105, Milwaukee, Wisconsin 53202.

The basic financial statements exclude the accounts of the Wisconsin Center District, Milwaukee Public Schools, the Milwaukee Metropolitan Sewerage District, World Festivals Inc. ("Summerfest") and the Employees' Retirement System of the City of Milwaukee, because these entities operate with separate governing boards and do not meet the criteria established by the Governmental Accounting Standards Board (GASB) Statement 14 as component units of the City. The Milwaukee Metropolitan Sewerage District (MMSD) is a special purpose municipal corporation created to provide sewerage treatment services in the Milwaukee metropolitan area. The City is responsible for paying usage charges within its jurisdiction. These amounts, in turn, are billed by the City to its water customers. The City has no equity interest in MMSD. Financial statements for MMSD can be obtained from its administrative office.

CITY OF MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

B. Basis of Presentation

Government-wide Statements. The government-wide statement of net assets and statement of activities report the overall financial activity of the City, excluding fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities of the City. These statements distinguish between the *governmental* and *business-type* activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (a) fines, fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the City's funds, including fiduciary funds. Separate statements for each fund category—governmental, proprietary, and fiduciary are presented. The emphasis on fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:

General Fund - The General Fund is used to account for all financial resources, except those required to be accounted for in another fund.

General Obligation Debt - This fund accounts for the resources accumulated and payments made for principal and interest on the City's outstanding long-term general obligation debt.

Public Debt Amortization - This fund accounts for one-third of all interest on general City investments and interest on Fund investments for the retirement of debt. The Public Debt Amortization Fund is governed by Section 67.101 of the Wisconsin Statutes for the retirement of the public debt. See Note 7 for further discussion.

Capital Projects Fund - The Capital Projects Fund is used to account for the financial resources segregated for the acquisition or construction of major capital expenditures other than those financed by proprietary funds.

The City reports the following major enterprise funds:

Water Works - All activities necessary to provide water services to residents of the City and outlying areas. Fund activities include administration, billing and collection, operations, maintenance and financing.

Sewer Maintenance - This fund accounts for the maintenance of the City's sewer system. Wisconsin State Statutes Section 66.076, permit municipalities to implement sewer fees to recover the costs of operation, maintenance, repair, and depreciation of sewer collection and transportation facilities. Sewer maintenance costs are recovered through a user fee rather than through the property tax.

Parking - This fund accounts for revenues derived from parking meters, parking permits, rentals and leasing of parking facilities and other revenues attributable to parking. The revenues are used to defray administrative and operational costs related to parking operations, and to acquire, landscape and construct parking lots and structures.

Additionally, the City reports the following fund types:

Pension and Other Employee Benefit Trusts - This fund accounts for resources for the City's deferred compensation plan, employee flexible spending and group life insurance.

CITY OF MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

Private Purpose Trust - These funds account for resources legally held in trust for use by various individuals, governmental entities, and nonpublic corporations. All resources of these funds, including any earnings on invested resources, may be used to support each trust's initiatives.

Agency - These funds account for taxes and deposits collected by the City, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

C. Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property tax revenue, grants, and other contributions. On an accrual basis, revenue from property taxes is recognized in the period for which the levy is intended to finance, which is the year after the taxes are levied. Taxes levied in 2002 that will be collected in 2003 are recorded as receivable and deferred revenue. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Revenue from grants and other contributions are recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues, excluding property taxes, to be available if they are collected within 90 days of the end of the current year. Property taxes are considered to be available if they are collected within 60 days of the end of the current year. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on general long-term debt, claims and judgments, and compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Significant revenue sources, which are susceptible to accrual include property taxes, state shared revenues, grants, contributions, and interest. All other revenue sources including licenses, permits, fines and forfeits are considered to be measurable and available only when cash is received.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The City also has the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

D. Cash and Cash Equivalents

For purposes of the statements of cash flows, all highly liquid investments (including restricted cash and investments) purchased with a maturity of three months or less are considered to be cash equivalents. The City manages a cash and investment pool to maximize return on funds while providing liquidity to meet day to day obligations. Each fund's equity in the City's investment pool is considered to be a cash equivalent, since the funds can deposit or effectively withdraw cash at anytime without prior notice or penalty. The Housing Authority considers amounts on deposit with fiscal agents to be investments and not cash equivalents due to their restrictive nature.

E. Investments

Investments, primarily consisting of fixed income securities, are reported at fair value based on quoted market prices. Commercial paper, which is short-term, defined as having an original maturity of one year or less, and highly liquid is carried at amortized cost. Investment transactions are recorded on the trade date.

Wisconsin Statutes permit the City to invest funds not immediately needed in any of the following:

CITY OF MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

- Time deposits maturing within three years in any credit union, bank, savings bank, trust company or savings and loan association which are authorized to transact business in the State of Wisconsin.
- Bonds or securities issued or guaranteed by the Federal government.
- Bonds or securities of any county, city, drainage district, technical college district, village, town or school district of the State of Wisconsin, as well as bonds issued by a local exposition district, a local professional baseball park district, or the University of Wisconsin Hospitals and Clinics Authority.
- Local Government Investment Pool - Investment Fund of the State of Wisconsin.
- Repurchase agreements with public depositories, if the agreement is secured by federal bonds or securities.
- Any Security which matures or which may be tendered for purchase at the option of the holder within not more than seven years of the date on which it is acquired, if that security has a rating which is the highest or second highest rating category assigned by Standard & Poor's Corporation, Moody's Investors Service, Inc. or other similar nationally recognized rating agency or if that security is senior to, or on a parity with, a security of the same issuer which has such a rating.
- Securities of open-end management investment companies or investment trusts (mutual funds) if the portfolio is limited to (a) bonds and securities issued by the federal government or a commission, board or other instrumentality of the federal government, (b) bonds that are guaranteed as to principal and interest by the federal government or a commission, board or other instrumentality of the federal government, and (c) repurchase agreements that are fully collateralized by these bonds or securities.

F. Property Taxes

Property taxes are recorded as receivables and deferred revenues in the taxing fund in the year levied because the taxes are restricted to funding the succeeding year's budget appropriations. Property tax payments received prior to year-end are also reflected in the taxing fund. Property taxes are recognized in the appropriate funds as revenues in the succeeding year when they are collected and available to finance City services. If not collected at year-end, the delinquent property taxes are reflected as receivables and deferred revenues. Delinquent property taxes and related interest are recognized as revenues when collected.

The allowance for uncollectible property taxes is based on an analysis of the delinquent property taxes and, in management's judgment, represents an amount adequate to provide for potential uncollectible taxes. The allowance is increased by provisions charged against revenues and is reduced by taxes receivable written off.

The City, through its Special Revenue Fund - Delinquent Tax, issues general obligation short-term promissory notes to finance the purchase of the most recent delinquent taxes from its General Fund. Collections on these delinquencies are used for the associated debt service requirements.

G. Unbilled Services

Unbilled water and sewer services at year end are recognized as revenues and receivables in the accompanying financial statements.

H. Special Assessments

Special assessments consist of capital projects constructed through non-special assessment debt. In governmental fund financial statements, special assessments are recorded as receivables and deferred revenues when the related capital outlays are made and are recorded as revenues when due and payable. In the government-wide financial statements, special assessments are recorded as receivables and capital contribution revenue when the capital outlays are made. All special assessments are due when billed and may be paid on an installment basis with interest. Special assessment receivables that become delinquent are added to the general tax roll. The method of enforcing collections is the same as for general city taxes with like force and effect.

CITY OF MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2002

I. Notes and Loan Receivables

The General Fund, the Special Revenue Fund - Community Development Block Grant, and Neighborhood Improvement Development Corporation hold notes and loans receivable from individuals, small businesses and corporations in the Milwaukee area that are secured by primary or secondary security interests in real estate or other assets. The City periodically analyzes the collectibility of the notes and loans that are not insured and provides allowances as considered necessary.

The City creates tax incremental districts (TID) to issue debt to fund redevelopment projects. Pursuant to a cooperation agreement between the City, the Redevelopment Authority of the City of Milwaukee (Authority), and the Milwaukee Economic Development Corporation (Corporation), the City provides the Authority and the Corporation with the funds necessary to carry out the loan to a private developer to finance the redevelopment projects. Loan repayments to the Authority and the Corporation from the private developer, including interest income as well as other project income, are transferred to the City until the City's loan has been repaid or the TID expires. The City reflects these loans as notes receivable and deferred revenue in governmental fund financial statements based on an amount estimated to be repaid from the Authority and the Corporation.

J. Inventories

Inventories of materials and supplies are stated at moving average cost, based upon perpetual recordkeeping systems and periodic cycle counts of quantities on hand. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Inventories in governmental funds are reserved for in fund balance, because inventories are not expendable available financial resources.

K. Prepaid Items

Cash payments benefiting future periods have been recorded as prepaid items. They will be reflected as expenditures or expenses when incurred in the subsequent year. Prepaid items in governmental funds are reserved for in fund balance, because prepaids are not expendable available financial resources.

L. Capital Assets

Capital assets, which includes property, plant, and equipment, and infrastructure, are reported at cost or estimated historical cost. Contributed assets are reported at estimated fair value at the time received. General infrastructure assets, such as roads, bridges, curbs, gutters, streets, sidewalks and drainage and lighting systems, acquired prior to January 1, 2002 are reported at estimated historical cost using deflated replacement cost. Capital assets are depreciated using the straight-line method. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset's lives are not capitalized.

Major capital outlays for capital assets of business-type activities are included as part of the capitalized value of the assets constructed. Interest expenses incurred during construction were not capitalized as part of the additions to capital assets.

Capitalization thresholds and the estimated useful lives for the City and component units are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life
Infrastructure	\$ 5,000	5-50 years
Land	5,000	N/A
Land Improvements	5,000	N/A
Site Improvements	5,000	3-50
Buildings	5,000	10-60
Building Improvements	5,000	10-45
Machinery and equipment	5,000	3-25
Works of Art, Historical Treasures	5,000	N/A

CITY OF MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

M. Pension Contributions

The employer's share of the annual contribution is recorded in the proprietary funds and government-wide financial statements as an expense when the liability is incurred and in the governmental funds as an expenditure when the liability is liquidated with expendable available financial resources.

N. Compensated Absences

The liability for compensated absences reported in the government-wide, proprietary and fiduciary fund financial statements consists of unpaid, accumulated vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and include salary related costs (e.g. social security and Medicare tax). A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

City employees accrue sick leave in accordance with labor agreements or Section 350-37 of the Code of Ordinances.

O. Claims and Judgments

The liability for claims and judgments is reported in the government-wide, proprietary and fiduciary fund financial statements when they are both probable and estimable. A liability for claims and judgments is reported in governmental funds only if they have matured (i.e. are due). The City accrues environmental remediation obligations when related liabilities are probable and reasonably estimable. These accruals generally are recognized no later than completion of a remedial feasibility study and are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are not discounted to their present value.

P. Bond Premiums, Discounts, and Issuance Costs

In the government-wide and proprietary fund financial statements, bond premiums and discounts, as well as issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums on debt issuance are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Q. Advance Refundings of Debt

In the government-wide and proprietary fund financial statements, gains and losses from advance refundings of debt resulting in defeasance are deferred and amortized as a component of interest expense over the shorter of the remaining life of the old debt or the life of the new debt using the effective interest method. Bonds payable are reported net of the applicable deferred amount.

R. Fund Balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for specific purposes.

S. Net Assets

In the government-wide and proprietary fund financial statements, equity is displayed in three components as follows:

Invested in Capital Assets, Net of Related Debt - This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

CITY OF MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

Restricted - This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the City's policy to use restricted resources first, then unrestricted resources when they are needed.

Unrestricted - This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

T. Interfund Transactions

The City has the following types of interfund transactions:

Loans - amounts provided with a requirement for repayment. Interfund loans are reported as interfund receivables (i.e. due from other funds) in lender funds and interfund payables (i.e. due to other funds) in borrower funds. The noncurrent portions of long-term interfund loans receivable are reported as advances.

Services provided and used - sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the fund balance sheets or fund statements of net assets.

Reimbursements - repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursement is reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Transfers - flows of assets (such as cash or goods) without equivalent flows of assets in return, including payments in lieu of taxes, and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after nonoperating revenues and expenses.

U. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

V. Accounting Change

Effective January 1, 2002, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments* and Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*. These Statements establish new financial reporting requirements and significantly change the format and content of the City's financial statements. They require new information and restructure much of the information that the City has presented in the past.

Statement No. 34 requires government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. The Government-wide financial statements include a statement of net assets and statement of activities. These financials statements do not provide information by fund or account group, but distinguish between the City's governmental activities, business-type activities, and activities of its discretely presented component units. The City's statement of net assets includes both non-current assets and non-current liabilities of the City, which were previously reported in the General Fixed Assets Account Group and the General Long-term Obligations Account Group, respectively. In addition to the capital assets previously reported in the General Fixed Assets Account Group, the City retroactively capitalized all infrastructure assets.

In addition to the government-wide financial statements, the City has prepared fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus for governmental funds. Accordingly, the accounting and financial reporting for the City's governmental funds is similar to that previously presented in the City's financial statements.

CITY OF MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2002

Statement No. 34 also requires, as required supplementary information, a Management's Discussion and Analysis, which includes analytical overview of the City's financial activities. In addition, a budgetary comparison schedule is presented that compares the adopted and modified General Fund budget with actual results.

In connection with the adoption of GASB No. 34, the City and its component unit, NIDC, have restated beginning fund balances/net assets as follows:

	Nonmajor Governmental Fund (Thousands of Dollars)	Sewer Maintenance Fund	NIDC
Fund Balance/net assets, December 31, 2001, as previously reported	\$ 22,746	\$ 185,662	\$ 10,598
Adjustment to defer taxes that are not considered available to finance current operations	(3,554)	-	-
Adjustment to decrease net capital asset balances	-	(1,752)	-
Adjustment to recognize forgivable loans receivable	-	-	5,503
Fund balance/net assets, January 1, 2002, as restated	<u>\$ 19,192</u>	<u>\$ 183,910</u>	<u>\$ 16,101</u>

Effective January 1, 2002, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*. This Statement modifies, establishes, and rescinds certain financial statement note disclosures. The financial statements have been prepared in conformance with this Statement.

Effective January 1, 2002, the City adopted the provisions of Governmental Accounting Standards Board Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. This Interpretation clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in governmental funds. There was no significant impact on the City's financial statements as a result of adopting this Interpretation.

2. DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all the funds, except for Debt Service Funds, Water Works Enterprise Fund, and component entities. Under Wisconsin Statutes, one-third of all interest on pooled cash and investments is allocated to the Public Debt Amortization Fund. The remaining two-thirds is credited to the General Fund. Each fund type's portion of pooled cash and investments is included in the cash and cash equivalents line on the Combined Balance Sheet. The Debt Service Funds, Water Works Enterprise Fund, and component units maintain separate cash and investments. In addition, investments are separately held by several other City funds. No violations of legal provisions for deposits and investments were committed during the year.

Deposits

At December 31, 2002, the reported amount of the City's deposits and cash on hand for governmental and business-type activities was \$73,973,000 and the related bank balance was \$74,424,000. Of the total bank balances, which are maintained by the City Treasurer, \$2,800,000 is entirely insured and \$49,641,000 is collateralized by securities held in the pledging banks' trust departments in the City's name. The remaining balance of \$21,983,000 is neither insured nor collateralized, nor was this amount significantly exceeded during the year.

At December 31, 2002, the reported amount of the City's deposits and cash on hand for component units was \$15,584,085 and the related bank balance was \$17,632,214. Of the components units deposits \$7,513,569 are entirely insured and \$10,118,645 are uninsured and collateralized at the end of the year.

Cash Equivalents and Investments

The City's primary government and component units cash equivalents and investments are categorized as either (1) insured or registered or securities held by the City or its agent in the City's name, (2) uninsured and unregistered with securities held

CITY OF MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2002

by the counterparty's trust department or agent in the City's name or (3) uninsured or unregistered with securities held by the counterparty, or by its trust department or agent but not in the City's name.

Cash and investments with fiscal agents include \$7,521,115 placed in trust for Housing Authority debt retirement, \$19,029,126 for Redevelopment Authority debt retirement, and \$420,000 for Disadvantaged Business Enterprise programs.

Governmental and business-type activities:	Category (1)	Category (2)	Category (3)	Reported Amount	Fair Value

(Thousands of Dollars)

Categorized:

U.S. Treasury Obligations.....	\$ -	\$ 54,310	\$ -	\$ 54,310	\$ 54,310
Municipal Bonds and Notes	-	-	-	7,704	7,704
	\$ -	\$ 54,310	\$ -	\$ 62,014	\$ 62,014

Noncategorized:

Cash and Investments with Fiscal Agents				3,991	3,991
Local Government Pooled - Investment Fund.....				184,616	184,616
Government Mutual Fund				26,865	26,865
Total Cash Equivalents and Investments				\$ 277,486	\$ 277,486

Fiduciary activities:

	Category (1)	Category (2)	Category (3)	Reported Amount	Fair Value

(Thousands of Dollars)

Categorized:

U.S. Treasury Obligations.....	\$ -	\$ 5,414	\$ -	\$ 5,414	\$ 5,414
--------------------------------	------	----------	------	----------	----------

Noncategorized:

Cash and Investments with Fiscal Agents				144	144
Local Government Pooled - Investment Fund.....				249,706	249,706
Deferred Compensation investments.....				340,802	340,802
Total Cash Equivalents and Investments				\$ 596,066	\$ 596,066

Component Units:

	Category (1)	Category (2)	Category (3)	Reported Amount	Fair Value

(Thousands of Dollars)

Categorized:

Federal Home Loan Bank Notes.....	\$ -	\$ -	\$ 4,072	\$ 4,072	\$ 4,072
Federal National Mortgage Association	-	-	1,968	1,968	1,968
Other securities	12,220	-	-	12,220	12,220
	\$ 12,220	\$ -	\$ 6,040	\$ 18,260	\$ 18,260

Noncategorized

Cash and Investments with Fiscal Agents				7,521	7,521
Local Government Pooled - Investment Fund.....				40,101	40,101
U.S. Government Money Market				4,009	4,009
Short-term Money Market				4,387	4,387
Investments in partnerships.....				299	299
Total Cash Equivalents and Investments				\$ 74,577	\$ 74,577

CITY OF MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2002

The pooled investments have not been categorized based on custodial risk because they are not securities. The relationship between the City and the investment agent is a direct contractual relationship, and the investments are not supported by a transferable instrument that evidences ownership or creditorship. The Local Government Pooled - Investment Fund is an external investment pool administered by the State of Wisconsin. The fair value of the City's investment in the fund is the same as the value of the pooled shares. Although not subject to direct regulatory oversight, the fund is administered in accordance with the provisions of Section 25.50 of the Wisconsin Statutes.

3. PROPERTY TAXES

The City's property taxes are levied on or before December 31, on the assessed (taxable) value as of the prior January 1 for all general property located in the City. Taxes become a lien against the property upon filing the roll in the Office of the City Clerk. This generally takes place in December. The taxes are due January 31, but may be paid in ten monthly installments without interest from January through October. Foreclosure can be commenced after one year from date of delinquency.

The City purchases property taxes receivable from other taxing authorities at the unpaid amounts to facilitate the collection of the taxes. The purchases are a financing arrangement and are not included in property tax revenues. Also, delinquent water and sewer charges and special assessment receivables are transferred to the General Fund at the unpaid amounts.

At December 31, 2002, delinquent property taxes include delinquent sewer and water charges and special assessments by year levied, tax deeded property, and allowance for uncollectible taxes. These delinquent property taxes are reported as part of taxes receivable in the General Fund and Special Revenue Fund - Delinquent Tax and consist of the following:

	City Levy	Purchased Taxes Receivable (Thousands of Dollars)	Total
1997 and prior	\$ 1,208	\$ 1,992	\$ 3,200
1998	305	502	807
1999	317	552	869
2000	1,059	1,844	2,903
2001	<u>4,779</u>	<u>8,957</u>	<u>13,736</u>
Total delinquent property taxes receivable	<u>\$ 7,668</u>	<u>\$ 13,847</u>	\$ 21,515
Property taxes receivable on foreclosed property			15,752
Less: Allowance for uncollectible taxes			<u>(13,070)</u>
Net delinquent property taxes receivable, including tax deeded property			<u>\$ 24,197</u>

CITY OF MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2002 was as follows:

Governmental Activities	Balance 01-01-02	Additions	Deletions	Balance 12-31-02
		<i>(Thousands of Dollars)</i>		
<i>Capital assets not being depreciated:</i>				
Land	\$ 162,342	\$ -	\$ -	\$ 162,342
Construction in progress	<u>98,611</u>	<u>56,152</u>	<u>(88,799)</u>	<u>65,964</u>
Total capital assets not being depreciated	<u>260,953</u>	<u>56,152</u>	<u>88,799</u>	<u>228,306</u>
<i>Capital assets being depreciated:</i>				
Buildings	105,966	11,759	-	117,725
Infrastructure	1,145,466	76,306	-	1,221,772
Improvements other than buildings	7,465	734	-	8,199
Machinery and Equipment	<u>90,152</u>	<u>7,232</u>	<u>-</u>	<u>97,384</u>
Total capital assets being depreciated	<u>1,349,049</u>	<u>96,031</u>	<u>-</u>	<u>1,445,080</u>
Less accumulated depreciation for				
Buildings	54,732	2,439	-	57,171
Infrastructure	679,230	30,868	-	710,098
Improvements other than buildings	6,125	211	-	6,336
Machinery and equipment	<u>65,883</u>	<u>6,184</u>	<u>-</u>	<u>72,067</u>
Total accumulated depreciation	<u>805,970</u>	<u>39,702</u>	<u>-</u>	<u>845,672</u>
Total capital assets being depreciated, net	<u>543,079</u>	<u>56,329</u>	<u>-</u>	<u>599,408</u>
Government activity capital assets, net	<u>\$ 804,032</u>	<u>\$ 112,481</u>	<u>\$ (88,799)</u>	<u>\$ 827,714</u>
Depreciation expense for governmental activities was charged to functions as follows:				
General government				\$ 137
Public safety				3,223
Public works				35,917
Health				38
Culture and recreation				384
Conservation and development				<u>3</u>
Total				<u>\$ 39,702</u>

CITY OF MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

	Balance 01-01-02	Additions (Thousands of Dollars)	Deletions	Balance 12-31-02
Business-type activities				
Waterworks				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,585	\$ -	\$ -	\$ 1,585
Construction in progress	<u>10,167</u>	<u>11,238</u>	<u>9,195</u>	<u>12,210</u>
Total capital assets not being depreciated.....	<u>11,752</u>	<u>11,238</u>	<u>9,195</u>	<u>13,795</u>
<i>Capital assets being depreciated:</i>				
Buildings	22,430	-	-	22,430
Infrastructure	255,132	6,943	432	261,643
Machinery and equipment.....	187,521	2,252	1,077	188,696
Nonutility property	<u>540</u>	<u>-</u>	<u>-</u>	<u>540</u>
Total capital assets being depreciated.....	<u>465,623</u>	<u>9,195</u>	<u>1,509</u>	<u>473,309</u>
Less accumulated depreciation for:				
Buildings	11,545	705	-	12,250
Infrastructure	61,428	3,058	293	64,193
Machinery and equipment.....	53,336	8,265	1,024	60,577
Nonutility property	<u>121</u>	<u>2</u>	<u>-</u>	<u>123</u>
Total accumulated depreciation	<u>126,430</u>	<u>12,030</u>	<u>1,317</u>	<u>137,143</u>
Total capital assets being depreciated, net	<u>339,193</u>	<u>(2,835)</u>	<u>192</u>	<u>336,166</u>
Waterworks capital assets, net	<u>\$ 350,945</u>	<u>\$ 8,403</u>	<u>\$ 9,387</u>	<u>\$ 349,961</u>
Sewer Maintenance				
<i>Capital assets not being depreciated:</i>				
Construction in progress	\$ 9,978	\$ 15,721	\$ 8,575	\$ 17,124
Total capital assets not being depreciated.....	<u>9,978</u>	<u>15,721</u>	<u>8,575</u>	<u>17,124</u>
<i>Capital assets being depreciated:</i>				
Infrastructure	265,856	8,617	2,709	271,764
Machinery and equipment.....	1,035	253	-	1,288
Furniture and furnishings	<u>47</u>	<u>16</u>	<u>41</u>	<u>22</u>
Total capital assets being depreciated.....	<u>266,938</u>	<u>8,886</u>	<u>2,750</u>	<u>273,074</u>
Less accumulated depreciation for:				
Infrastructure	81,756	3,573	909	84,420
Machinery and equipment.....	285	187	-	472
Furniture and furnishings	<u>47</u>	<u>2</u>	<u>41</u>	<u>8</u>
Total accumulated depreciation	<u>82,088</u>	<u>3,762</u>	<u>950</u>	<u>84,900</u>
Total capital assets being depreciated, net	<u>184,850</u>	<u>5,124</u>	<u>1,800</u>	<u>188,174</u>
Sewer maintenance capital assets, net	<u>\$ 194,828</u>	<u>\$ 20,845</u>	<u>\$ 10,375</u>	<u>\$ 205,298</u>

CITY OF MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2002

	Balance 01-01-02	Additions (Thousands of Dollars)	Deletions	Balance 12-31-02
Parking				
<i>Capital assets not being depreciated:</i>				
Land	\$ 9,854	\$ 100	\$ 539	\$ 9,415
Total capital assets not being depreciated.....	<u>9,854</u>	<u>100</u>	<u>539</u>	<u>9,415</u>
<i>Capital assets being depreciated:</i>				
Buildings	48,326	709	-	49,035
Improvements other than buildings.....	5,669	192	422	5,439
Machinery and equipment.....	<u>474</u>	<u>118</u>	<u>-</u>	<u>592</u>
Total capital assets being depreciated.....	<u>54,469</u>	<u>1,019</u>	<u>422</u>	<u>55,066</u>
Less accumulated depreciation for:				
Buildings	14,669	1,886	-	16,555
Improvements other than buildings.....	2,333	304	327	2,310
Machinery and equipment.....	<u>67</u>	<u>70</u>	<u>-</u>	<u>137</u>
Total accumulated depreciation	<u>17,069</u>	<u>2,260</u>	<u>327</u>	<u>19,002</u>
Total capital assets being depreciated, net	<u>37,400</u>	<u>(1,241)</u>	<u>95</u>	<u>36,064</u>
Parking capital assets, net.....	<u>\$ 47,254</u>	<u>\$ (1,141)</u>	<u>\$ 634</u>	<u>\$ 45,479</u>
Other business-type activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 8,280	\$ -	\$ -	\$ 8,280
Total capital assets not being depreciated.....	<u>8,280</u>	<u>-</u>	<u>-</u>	<u>8,280</u>
<i>Capital assets being depreciated:</i>				
Buildings	9,699	-	-	9,699
Improvements other than buildings.....	17,681	-	110	17,571
Machinery and equipment.....	4,835	-	-	4,835
Furniture and Furnishings	<u>31</u>	<u>-</u>	<u>-</u>	<u>31</u>
Total capital assets being depreciated.....	<u>32,246</u>	<u>-</u>	<u>110</u>	<u>32,136</u>
Less accumulated depreciation for:				
Buildings	5,925	153	-	6,078
Improvements other than buildings.....	11,928	370	110	12,188
Machinery and equipment.....	3,031	186	-	3,217
Furniture and furnishings	<u>26</u>	<u>4</u>	<u>-</u>	<u>30</u>
Total accumulated depreciation	<u>20,910</u>	<u>713</u>	<u>110</u>	<u>21,513</u>
Total capital assets being depreciated, net	<u>11,336</u>	<u>(713)</u>	<u>-</u>	<u>10,623</u>
Other business-type activities, net.....	<u>\$ 19,616</u>	<u>\$ 713</u>	<u>\$ -</u>	<u>\$ 18,903</u>
Business-type activity capital assets, net	<u>\$ 612,643</u>	<u>\$ 27,394</u>	<u>\$ 20,396</u>	<u>\$ 619,641</u>

CITY OF MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2002

	Balance 01-01-02	Additions (Thousands of Dollars)	Deletions	Balance 12-31-02
Component Units				
<i>Capital assets not being depreciated:</i>				
Land	\$ 46,410	\$ 2,751	\$ 454	\$ 48,707
Construction in Progress.....	<u>38,353</u>	<u>20,540</u>	<u>189</u>	<u>58,704</u>
Total capital assets not being depreciated.....	<u>84,763</u>	<u>23,291</u>	<u>643</u>	<u>107,411</u>
<i>Capital assets being depreciated:</i>				
Buildings	276,045	7,532	718	282,859
Improvements other than buildings.....	204	-	-	204
Machinery and equipment.....	<u>3,883</u>	<u>110</u>	<u>490</u>	<u>3,503</u>
Total capital assets being depreciated.....	<u>280,132</u>	<u>7,642</u>	<u>1,208</u>	<u>286,566</u>
Less accumulated depreciation for:				
Buildings	134,393	14,810	134	149,069
Improvements other than buildings.....	10	20	-	30
Machinery and equipment.....	<u>2,956</u>	<u>430</u>	<u>455</u>	<u>2,931</u>
Total accumulated depreciation.....	<u>137,359</u>	<u>15,260</u>	<u>589</u>	<u>152,030</u>
Total capital assets being depreciated, net	<u>142,773</u>	<u>(7,618)</u>	<u>619</u>	<u>134,536</u>
Component units capital assets, net	<u>\$ 227,536</u>	<u>\$ 15,673</u>	<u>\$ 1,262</u>	<u>\$ 241,947</u>

5. DEFERRED REVENUE

Deferred revenue is recorded in the governmental funds for amounts not yet available and for resources received prior to being earned by the City. Related revenue is recognized when these amounts become available or when earned. The composition of the deferred revenue balances in the governmental funds is as follows:

	General	General Obligation Debt Service	Capital Projects	Nonmajor Governmental Funds	Total
<i>(Thousands of Dollars)</i>					
Current property taxes	\$ 131,672	\$ 66,884	\$ 11,414	\$ -	\$ 209,970
Delinquent property taxes	4,779	-	-	2,889	7,668
Unearned revenue	861	-	4,147	7,505	12,513
Long-term receivables	-	43,094	-	5,695	48,789
Unbilled special assessments.....	-	-	8,740	-	8,740
Total	<u>\$ 137,312</u>	<u>\$ 109,978</u>	<u>\$ 24,301</u>	<u>\$ 16,089</u>	<u>\$ 287,680</u>

6. SHORT-TERM DEBT

During 2002, the City defeased \$102,000,000 of Revenue Anticipation Notes (RANs) which come due in the first half of 2003 by placing funds in an irrevocable trust with a financial institution. These RANs are not outstanding at year end on the City's Financial Statements. The RANs were issued for the purpose of financing the City's operating budget on an interim basis pending receipt of State of Wisconsin shared revenue payments due in November 2002.

As of December 31, 2001, the City had outstanding \$112,000,000 of short-term RANs on behalf of Milwaukee Public Schools. In 2002, the City repaid the outstanding balance and issued \$133,000,000 short-term RANs for the same purpose. The new notes bear interest at the rate of 2.75% and will mature on August 28, 2003. The liability and related receivable to repay the revenue anticipation notes are recorded in the Debt Service Fund.

CITY OF MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2002

7. LONG-TERM OBLIGATIONS

A. Changes in Long-Term Obligations

Changes in long-term obligations for the year ended December 31, 2002 were as follows:

	Balance 01-01-02	New Issues Repayments <i>(Thousands of Dollars)</i>	Balance 12-31-02	Amounts Due within One Year
Governmental activities:				
General obligation bonds and notes				
City	\$ 466,837	\$ 189,563	\$ 172,697	\$ 483,703
Milwaukee Public Schools	99,592	50,319	42,459	107,452
Deferred amount on refundings	-	(11,864)	(272)	(11,592)
Unamortized premiums	-	19,313	537	18,776
Compensated absences	33,360	5,143	1,644	36,859
Claims and judgments	36,945	13,319	16,221	34,043
Total governmental activities	<u>\$ 636,734</u>	<u>\$ 265,793</u>	<u>\$ 233,286</u>	<u>\$ 669,241</u>
Business-type activities				
Water Works				
General obligation bonds and notes	\$ 47,858	\$ 17,953	\$ 23,322	\$ 42,489
Deferred amount on refundings	(73)	(1,704)	(60)	(1,717)
Unamortized premiums	-	2,033	38	1,995
Revenue bonds	16,030	-	699	15,331
Compensated absences	-	-	-	943
Total Water Works	<u>\$ 63,815</u>	<u>\$ 18,282</u>	<u>\$ 23,999</u>	<u>\$ 59,041</u>
Sewer Maintenance				
Revenue bonds	\$ 29,095	\$ -	\$ -	\$ 29,095
Unamortized premiums	753	-	38	715
Total sewer maintenance	<u>\$ 29,848</u>	<u>\$ -</u>	<u>\$ 38</u>	<u>\$ 29,810</u>
Parking				
General obligation bonds and notes	\$ 25,557	\$ 4,960	\$ 7,928	\$ 22,589
Deferred amount on refundings	(84)	(412)	(32)	(464)
Unamortized premiums	-	491	9	482
Total parking	<u>\$ 25,473</u>	<u>\$ 5,039</u>	<u>\$ 7,905</u>	<u>\$ 22,607</u>
Other Enterprise Funds				
General obligation bonds and notes	\$ 3,539	\$ 1,215	\$ 1,438	\$ 3,316
Deferred amount on refundings	4	(101)	(3)	(94)
Unamortized premiums	-	120	3	117
Total Other Enterprise	<u>\$ 3,543</u>	<u>\$ 1,234</u>	<u>\$ 1,438</u>	<u>\$ 3,339</u>
Total business-type activities	<u>\$ 122,679</u>	<u>\$ 24,555</u>	<u>\$ 33,380</u>	<u>\$ 114,797</u>
				<u>\$ 11,518</u>

CITY OF MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2002

Compensated absences have been liquidated by the applicable governmental funds that account for the salaries and wages of the related employees. Claims and judgments typically have been liquidated from the special purpose damages and claims account in the general fund.

	Balance 01-01-02	New Issues	Repayments	Balance 12-31-02	Amounts Due within One Year
		<i>(Thousands of Dollars)</i>			
Component Units					
Revenue bond.....	\$ 12,684	\$ 37,900	\$ 5,994	\$ 44,590	\$ 517
Deferred amount on refundings	(323)	-	(323)	-	-
Unamortized premiums.....	-	-	-	-	-
Unamortized discounts	-	(144)	(4)	(140)	-
Notes payable	8,439	503	29	8,913	36
Advance from other organizations	7,963	-	6,463	1,500	2
Total component units.....	<u>\$ 28,763</u>	<u>\$ 38,259</u>	<u>\$ 12,159</u>	<u>\$ 54,863</u>	<u>\$ 555</u>

Certain prior year balances for the component units have been adjusted to correspond with the proper classification reflected in the Combined Balance Sheet.

B. General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities for the City and for Milwaukee Public Schools. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds are secured by the full faith and unlimited taxing power of the City. The debt for governmental activities will be retired by future property tax levies and other resources accumulated in the Debt Service Funds. The debt for business-type activities (i.e. Water Works, Parking, and Port of Milwaukee Enterprise Funds) will be retired by revenues from those operations or, if the revenues are not sufficient, by future tax levies. During the year ended December 31, 2002, general obligation bonds totaling \$217,457,000 was issued to refund general obligation bonds and to finance capital improvements.

Use of Public Debt Amortization Fund for retirement of the public debt is governed by the Wisconsin Statutes. The Statutes provide that when total principal and accrued interest in the Public Debt Amortization Fund is substantially equal to the outstanding general obligation bonds and notes, the resources in the fund shall be applied to make annual interest and principal payments on that debt to maturity. The Statutes provide, in part, that "The Public Debt Commission may, however, at any time, apply the fund, not to exceed in any one year 40 percent of the balance in said fund on the preceding December 31, to acquire for cancellation general obligation bonds or notes prior to their maturity dates at prices not to exceed principal plus accrued interest to date of maturity, but the fund shall not be decreased below \$2,000,000 as a result of such purchases and cancellations." Principal sources of revenue are one-third of all interest on general City investments and interest on Fund investments. As authorized by the Statutes, the Public Debt Amortization Fund may purchase for investment or for cancellation, notes issued by the General Fund to fund operations.

Through 2002, \$135,412,000 has been borrowed for thirty-eight tax incremental districts (TID). Total debt service requirements associated with this debt issues amount to \$113,736,000. Tax increments received through 2002 total \$86,467,000. In any year in which TID debt service requirements for the ensuing year are greater than total tax increments received, the shortfall is funded by the property tax levy.

Under the Wisconsin Statutes, the City is required, if requested by the Board of Milwaukee Public Schools, and if approved by referendum, to issue general obligation bonds to finance purchases of school sites and to construct or remodel school buildings. No such bonds are currently outstanding. The \$107,452,000 of Milwaukee Public School long-term debt outstanding at December 31, 2002 consists of a portion of the City's general obligation bonds and notes which has been designated for school purposes. Under the Wisconsin Statutes, the City has title to the land and buildings of the Milwaukee Public Schools. However, the City does not control the use of the assets or receive the proceeds upon disposition of the assets. At June 30, 2002, the historical costs of the land and buildings as reported by Milwaukee Public Schools was approximately \$610,349,000. These assets are excluded from the financial statements of the City.

CITY OF MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

C. Revenue Bonds

The City issues revenue bonds to provide funds for water and sewer improvements. As such, they are not backed by the general credit or taxing powers of the City. During the year ended December 31, 2002, the City did not issue revenue bonds.

The component units issue revenue bonds to provide funds for capital construction and mortgage-backed securities. As such, they are not backed by the general credit or taxing powers of the City. During the year ended December 31, 2002, revenue bonds totaling \$37,900,000 were issued to construct housing projects and purchase mortgage-backed securities.

D. Notes Payable

The City issues installment notes to provide funds for various public improvement projects, cashflow for the school district and purchases of delinquent taxes. During the year ended December 31, 2002, installment loans totaling \$22,425,000 were issued to provide the school district cashflow, finance building projects and purchase 2001's delinquent taxes.

E. Debt Service Requirements

The maturities of the outstanding principal and related interest requirements are as follows:

Year	General Obligation Debt		Revenue Bonds Payable		Total Debt Service
	Principal	Interest	Principal	Interest	
(Thousands of Dollars)					
Governmental activities					
2003	\$ 75,372	\$ 27,759	\$ -	\$ -	\$ 103,131
2004	62,386	25,360	-	-	87,746
2005	58,302	22,486	-	-	80,788
2006	52,865	19,587	-	-	72,452
2007	50,109	16,957	-	-	67,066
2008-2012	193,522	51,878	-	-	245,400
2013-2017	92,304	13,012	-	-	105,316
2018-2022	6,295	338	-	-	6,633
Total	<u>\$ 591,155</u>	<u>\$ 177,377</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 768,532</u>
Business-type activities					
Water Works					
2003	\$ 4,680	\$ 1,969	\$ 782	\$ 394	\$ 7,825
2004	5,008	1,859	803	373	8,043
2005	4,852	1,613	824	352	7,641
2006	4,692	1,358	846	330	7,226
2007	3,362	1,120	868	307	5,657
2008-2012	12,782	3,693	4,698	1,176	22,349
2013-2017	7,067	807	5,352	513	13,739
2018-2022	46	3	1,158	\$ 15	1,222
Total	<u>\$ 42,489</u>	<u>\$ 12,422</u>	<u>\$ 15,331</u>	<u>\$ 3,460</u>	<u>\$ 73,702</u>

CITY OF MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

Year	General Obligation Debt		Revenue Bonds Payable		Total Debt Service
	Principal	Interest	Principal	Interest	
	(Thousands of Dollars)				
Business-type activities					
Sewer Maintenance					
2003	\$ -	\$ -	\$ 1,000	\$ 1,340	\$ 2,340
2004	-	-	1,035	1,304	2,339
2005	-	-	1,080	1,259	2,339
2006	-	-	1,135	1,204	2,339
2007	-	-	1,190	1,153	2,343
2008-2012	-	-	6,705	5,004	11,709
2013-2107	-	-	8,455	3,249	11,704
2018-2022	-	-	8,495	868	9,363
Total	\$ -	\$ -	\$ 29,095	\$ 15,381	\$ 44,476
Parking					
2003	\$ 3,746	\$ 989	\$ -	\$ -	\$ 4,735
2004	3,693	865	-	-	4,558
2005	3,646	712	-	-	4,358
2006	1,894	554	-	-	2,448
2007	1,868	461	-	-	2,329
2008-2012	5,814	1,197	-	-	7,011
2013-2107	1,924	221	-	-	2,145
2018-2022	4	-	-	-	4
Total	\$ 22,589	\$ 4,999	\$ -	\$ -	\$ 27,588
Other Enterprise					
2003	\$ 366	\$ 156	\$ -	\$ -	\$ 522
2004	350	146	-	-	496
2005	338	129	-	-	467
2006	309	112	-	-	421
2007	276	97	-	-	373
2008-2012	1,212	285	-	-	1,497
2013-2107	465	54	-	-	519
Total	\$ 3,316	\$ 979	\$ -	\$ -	\$ 4,295
Component Units					
2003	\$ 517	\$ 1,523	\$ 38	\$ 378	\$ 2,456
2004	901	1,139	40	370	2,450
2005	943	1,099	43	367	2,452
2006	987	1,055	46	363	2,451
2007	1,037	1,008	50	359	2,454
2008-2012	2,639	4,493	318	1,729	9,179
2013-2107	3,532	3,601	1,471	1,576	10,180
2018-2022	8,634	2,413	540	1,356	12,943
2023-2027	25,400	1,097	35	1,260	27,792
2028-2032	-	-	45	1,249	1,294
2033-2037	-	-	58	1,236	1,294
2038-2042	-	-	4,863	967	5,830
2043-2047	-	-	1,307	32	1,339
2048-2051	-	-	59	7	66
Total	\$ 44,590	\$ 17,428	\$ 8,913	\$ 11,249	\$ 82,180

CITY OF MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

F. Debt Limit

Wisconsin Statutes limit direct general obligation borrowing in the amount equivalent to 7% of the equalized valuation of taxable property. The Statutes further provide that within the 7% limitation, borrowing for school construction purposes may not exceed 2% of the equalized valuation and borrowing for general city purposes may not exceed 5% of the equalized valuation. At December 31, 2002, the City's legal debt margin was \$1,420,687,000. Of this amount, \$405,968,000 was for school purposes and \$1,014,919,000 was for City purposes.

G. Refundings

During October 2002, the City issued two series of general obligation refunding bonds. The first issue, Series of 2002-A (tax-exempt) was in the par amount of \$159,985,000 and carries interest rates between 2.5 and 5.25% for the purpose of current and advance refunding \$169,920,000 of existing general obligation bonds and notes. This refunding will reduce the future debt service payments by \$7,550,000 and result in an economic gain of \$5,470,000.

The second issue, Series of 2002-B (taxable) was in the par amount of \$1,415,000 and carries interest rates between 5.8 and 6.75% for the purpose of current refunding \$1,415,000 of existing general obligation debt. This refunding will reduce the future debt service payments by \$24,000 and result in an economic gain of \$21,000.

In prior years, the City defeased certain general obligation bonds by placing the proceeds from new general obligation bonds in an irrevocable trust to provide all future debt service payments on the bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the City's financial statements. At December 31, 2002, \$181,245,000 of bonds outstanding are considered defeased, which includes debt defeased during the current year.

H. Conduit Debt

From time to time, the City, as well as the Housing Authority and the Redevelopment Authority, has issued revenue bonds in order to provide financing to private sector entities for the purpose of acquiring, constructing, or rehabilitating housing units and for retiring the existing debt associated with housing units. These obligations are primarily secured by mortgage or revenue agreements on the associated projects and, together with the interest obligation, is payable solely by the developers from leased rentals and other funds or revenues. In addition, these obligations do not constitute indebtedness of the City, as the City has no responsibility for the debt beyond the resources provided by related leases or loans. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. The aggregate amount of all revenue bonds outstanding at December 31, 2002 is approximately \$90,135,000, \$55,395,000, and \$301,000,000 for the City, HACM, and RACM, respectively.

8. RETIREMENT PLANS

Pension Benefits

Plan Description - The City makes contributions to the Employees' Retirement System of the City of Milwaukee (the "System"), a cost-sharing multiple-employer defined benefit pension plan, on behalf of all eligible City employees. The System provides retirement, disability, and death benefits to plan members and beneficiaries. The City Charter assigns the authority to establish and amend benefit provisions. The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Employees' Retirement System of the City of Milwaukee, 200 East Wells Street, Room 610, Milwaukee, WI 53202.

Funding Policy - Plan members are required to contribute, or have contributed on their behalf, a percentage of their annual earnable compensation equal to 5.5%, 6%, 7%, and 7% for general City employees, police officers, firefighters, and elected officials, respectively. The City is required to contribute the actuarially determined amount. The City Charter assigns the authority to establish and amend contribution requirements. The City's contributions to the System for the years ending December 31, 2002, 2001, and 2000 were \$20,233,000, \$20,288,000, and \$20,693,000, respectively, equal to the required contributions on behalf of the plan members for each year.

Other Postemployment Benefits

The City provides medical insurance benefits for substantially all retirees in accordance with terms set forth in labor contracts or by Common Council resolution. Retirees are eligible to enroll in any of the group plans offered by the City. Aside

CITY OF MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

from the Basic Plan, this includes any of the Health Maintenance Organizations (HMO) plans currently offered to active employees.

The City provides full health insurance coverage to general City employees who retire at age 55, but less than age 65, with 30 years of creditable service or age 60, but less than age 65, with 15 years of creditable service until the age of 65. In accordance with a "percentage formula" as provided in labor agreements, the City provides between 65% and 100% of the cost of the Basic Plan coverage for firefighters and police officers who retire with 25 years of creditable service and having attained at least the age of 52 but less than 60. Upon reaching the age of 60 but prior to the age of 65, the City provides full health insurance coverage for firefighters with single enrollment status and police officers with single enrollment status. The City contribution for firefighters between the ages of 60 and 65 with family enrollment status is the greater of 100% of the cost of single enrollment in the Basic Plan or an amount determined using the "percentage formula." The "percentage formula" used to determine the City contribution in the labor agreements is based on the amount of unused sick leave at retirement.

After attaining the age of 65 and having completed a minimum of 15 years of creditable service, all retirees are eligible to enroll in a "subsidized plan" for medical insurance. Under this plan, the City contributes 25% of the base rate toward retirees enrolled in the Basic Plan, while the retiree pays 75% of the base rate and 100% of the major medical rate. For those retirees enrolled in an HMO, the City contributes a 25% subsidy of the applicable HMO premium.

Medical insurance for retirees is financed on a pay-as-you-go basis. Approximately 4,914 employees are eligible to receive these benefits. For 2002, the City paid approximately \$21,364,000 toward medical insurance for its retirees.

In addition to medical insurance, the City allows its employees to continue life insurance coverage under the Group Life Insurance Plan offered to active employees in accordance with Section 350-25 of the Code of Ordinances. The base amount of coverage for general City employees is equal to the employee's annual basic salary to the next higher thousand dollars. The base amount of coverage for firefighters and police officers is equal to one and one-half the employee's annual basic salary to the next higher thousand dollars.

General City employees retiring at age 55 or older with 20 years of service or at age 60 regardless of years of service and covered under the group life insurance plan at retirement are eligible to continue coverage at the level on the date prior to their date of retirement. Firefighters and police officers retiring at age 52 or older with 20 years of service or at age 57 regardless of years of service and covered under the group life insurance plan at retirement are eligible to continue coverage up to their base amount of coverage on the date prior to their date of retirement. Prior to age 65, all retirees are required to pay the full premium rates as established by the insurance carrier, less an adjustment for estimated dividends. The rates established are group rates applied consistently to all employees, without regard to age or health. Upon reaching the age of 65, those retirees still part of the group life plan have their coverage reduced in accordance with the reduction schedule in effect on their last day physically at work, with the City assuming all future premiums.

For 2002, the groups rate for life insurance for the City population as a whole was approximately fifty cents per month per \$1,000 of coverage after estimated dividends. The effect on this rate as a result of including retirees in the pool is not determinable. Group life insurance for retirees age 65 or older are financed on a pay-as-you-go basis and cannot be readily separated from amounts paid on behalf of active employees. The City estimates \$970,000 out of a total \$3,487,000 for group life insurance for 2002 is attributable to approximately 5,076 retirees on the basis of the common group life rate.

Terminal Leave Payments

Upon retirement, employees receive a portion of their unused sick leave as terminal leave, in accordance with labor contracts and Section 350-38 of the Code of Ordinances. Firefighters whose normal hours of work exceed 40 hours per week receive between \$45 and \$65 for each work shift equivalent of unused sick leave. Firefighters whose normal hours of work average 40 hours per week receive between \$21 and \$30 for each work shift equivalent of unused sick leave. Police officers receive payment for up to 55 days of unused sick leave at base pay. Management pay plan employees are entitled to payment of 30% of unused sick leave (maximum 960 hours) plus one-half of the sick leave days accumulated during the last twelve months of service for up to six additional days for a total maximum of 42 days at the rate of pay at retirement. Substantially all remaining City employees receive up to 30 days for unused sick leave as terminal leave, although some bargaining units receive slightly different benefits in accordance with related labor agreements. In 2002, approximately \$8,776,000 was paid for sick leave from all funds. At December 31, 2002, accumulated sick leave earned but not taken totaled approximately \$104,336,000 determined on the basis of current salary rates.

CITY OF MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2002

Terminal leave pay is funded on a pay-as-you-go basis and provided for in the salary budgets of the respective departments annually. In 2002 terminal leave payments totaled \$1,683,000 to employees retiring during the year. As of December 31, 2002, the City has accrued approximately \$22,032,000 in the government-wide statements for future terminal leave payments. This amount is included under the unfunded compensated absences of \$36,860,000, with the remainder accrued vacation leave of \$14,828,000.

9. FUND EQUITY

Reserved for Tax Stabilization and Advances to Other Funds

The Reserved for Tax Stabilization, \$43,045,000 at December 31, 2002, is governed by the City's Code of Ordinances. This reserve includes an amount for advances of \$13,027,000 from the general fund to the capital projects fund. The general fund has advanced this amount to fund special assessment projects. The availability of the \$13,027,000 for Tax Stabilization is contingent upon future collection of the special assessments receivable. All General Fund appropriation balances not encumbered or carried over are reserved for tax stabilization in subsequent years. The total amount that can be withdrawn from the Reserved for Tax Stabilization in any one year is an amount that prevents an increase of more than three percent in the City's property tax rate, as defined, and is anticipated to be available as of April 15 of the year covered by the budget. Such amount must be included in the adopted budget, which requires a majority affirmative vote of the Common Council. Fund withdrawals not needed to stabilize the tax rate can be made for up to 50% of the available balance, but require a three-fourths affirmative vote of the Common Council.

Deficit Fund Equity

The Capital Projects Fund - Special Assessments fund deficit of \$11,897,000 is the result of expending funds of \$13,180,000 for construction in advance of collecting assessments from the property owners. Upon project completion, the properties are assessed, thus reducing this deficit when the payments are received.

10. INTERFUND RECEIVABLE AND PAYABLE BALANCES AND NET TRANSFERS

The individual interfund receivable and payable balances at December 31, 2002, were as follows:

		Due From Other Funds				
		General Fund	Water Works	Sewer Maintenance Fund	Nonmajor Proprietary Funds	Total
		(Thousands of Dollars)				
Due to Other Funds	General Fund	\$ -	\$ 3,757	\$ -	\$ -	\$ 3,757
	General Obligation Debt.....	1,195	6,649	-	-	7,844
	Nonmajor Governmental Funds .	7,406	-	-	-	7,406
	Water Works.....	-	509	492	548	1,549
	Nonmajor Proprietary Funds	<u>2,762</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,762</u>
Totals		<u>\$ 11,363</u>	<u>\$ 10,915</u>	<u>\$ 492</u>	<u>\$ 548</u>	<u>\$ 23,318</u>

Balances resulted from the timing differences between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, (3) payments between funds are made, (4) and funds overdraw their share of pooled cash or when there are transactions between funds where one fund does not participate in the City's pooled cash.

CITY OF MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2002

Interfund transfers for the year ended December 31, 2002 were as follows:

Transfers From Other Funds					
	General Fund	General Obligation Debt Service	Water Works Fund	Nonmajor Proprietary Funds	Total
	(Thousands of Dollars)				
General Fund	\$ -	\$ -	\$ -	\$ 3	\$ 3
General Obligation Debt.....	5,367	-	7,395	529	13,291
Capital Projects Funds	-	5,016	-	-	5,016
Nonmajor Governmental Funds .	4,934	13,381	-	-	18,315
Water Works.....	7,974	-	-	-	7,974
Parking	9,471	424	-	-	9,895
Nonmajor Proprietary Funds	1,209	-	-	-	1,209
Totals	<u>\$ 28,955</u>	<u>\$ 18,821</u>	<u>\$ 7,395</u>	<u>\$ 532</u>	<u>\$ 55,703</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires collection from to the fund that statute or budget required to expend them. (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

11. BALANCES BETWEEN THE CITY AND COMPONENT UNITS

Balances due to and due from component units as of December 31, 2002, consist of the following:

Component Unit Payable	Primary Government's Receivable
	(Thousands of Dollars)
Due from RACM for loans issued to developers for the purpose of renovations and improvements to existing parcels of real estate	\$ 17,239
Due from MEDC for tax incremental district loans	2,406
Due from HACM for payment in lieu of taxes and reimbursable expenditures	1,880
Due from NIDC for reimbursements for expenditures	<u>2,117</u>
Total.....	<u>\$ 23,642</u>
Component Unit Payable	Primary Government's Receivable
	(Thousands of Dollars)
Due to NIDC for reimbursements for programmatic expenditures passed through the City	<u>\$ 911</u>

CITY OF MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2002

12. OPERATING LEASES

The City leases various properties under operating lease agreements expiring at various dates through 2007 and beyond. Certain leases contain provisions for possible renewal at term of the lease.

Scheduled minimum lease payments for years ending December 31 are as follows:

Year	Amount
	<i>(Thousands of Dollars)</i>
2003	\$ 1,801
2004	1,811
2005	1,977
2006	1,723
2007	1,732
2008-2012	6,799
2013-2017	7,444
2018-2022	<u>5,381</u>
 Total	 <u>\$ 28,668</u>

13. COMMITMENTS AND CONTINGENCIES

Claims and Other Legal Proceedings

The City is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employee or natural disaster. With certain exceptions, it is not the policy of the City to purchase commercial insurance for the risks of losses to which it is exposed. Instead, the City believes it is more economical to manage its risks internally and set aside funds as needed for estimated current claim settlements and unfavorable judgments through annual appropriations and supplemental appropriations. Current settlements are paid from the General Fund and recorded as expenditures when paid in the fund based statements. The liabilities are recorded in the government-wide financial statement.

Under Wisconsin Statutes, the amount recoverable by any person for any damages, injuries or death in any action founded on fact against the City, agencies, officials, officers or employees cannot exceed \$50,000, with certain exceptions.

The City is self-insured for workers' compensation, health insurance (basic plan), uninsured motorist motor vehicle coverage for City employees, and general liability. Liabilities are reported when it is probable that a loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Liabilities are based on the estimated ultimate cost of settling the claims, including the effects of inflation and other economic and social factors. Claims are paid from the General Fund and recorded as expenditures when paid in the fund based financial statements. The liabilities are recorded in the government-wide statements.

The liabilities recorded in the government-wide statements are as follows:

General liability claims	\$ 20,286,000
Workers' compensation claims	5,396,000
Unemployment claims	1,079,000
Health insurance claims.....	7,282,000

Changes in the balances of claim liabilities during the past two years are as follows:

	2002	2001
Beginning of year liability	\$ 36,945,000	\$ 43,520,000
Current year claims and changes in estimates	13,319,000	14,939,000
Claim payments	<u>(16,221,000)</u>	<u>(21,514,000)</u>
End of year liability	<u>\$ 34,043,000</u>	<u>\$ 36,945,000</u>

CITY OF MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

The Milwaukee Police Association filed suit against the City and the Milwaukee Employees' Retirement System as a result of a City Ordinance passed in 1995 that merged the Retirement Fund With the Duty Disability Fund. Actuarial reports indicated that if the separate funds were merged, there were sufficient assets within the Employees' Retirement System to fund all retirement and disability liabilities without currently requiring additional contributions. In 1996, the Circuit Court granted summary judgment to the plaintiff declaring the merger to be unconstitutional. The court stayed enforcement of its order, insofar as any additional contribution of the City was concerned, to give the City the opportunity to appeal. In 1998, the Court of Appeals modified the Circuit Court's judgment; and the City's petition to the Wisconsin Supreme Court to accept a discretionary appeal of the Court of Appeals' decision was denied. As a result, the City was required to make contributions to fund an unfunded liability in the Duty Disability Fund.

The Equal Employment Opportunity Commission ("EEOC") conducted a pattern and practice investigation from December 1993 to September 1996. The investigation resulted in a finding of probable cause that the Fire and Police Commission ("FPC") and Milwaukee Police Department discriminated, based on race, in the areas of hiring, discipline, retaliation, and terms and conditions of employment. The EEOC sought \$5 million in total remedies for the class claims and nearly \$2 million to the individual hiring charging parties. Additionally, the EEOC requested remedies for the 15 individual "terms and conditions" charging parties in an amount totaling over \$2.5 million. The EEOC also sought an additional \$1 million in compensation to the "terms and conditions" class members. The EEOC referred the matter to the United States Department of Justice ("DOJ") in February 1997. Additional individual EEOC charges have also resulted in reasonable cause determinations and have been referred to the DOJ. The DOJ conducted a further, lengthy investigation and stated by letter dated January 2, 2001 that suit had been authorized against the City and the FPC. DOJ alleges that between 1991 and 1996, African-Americans were discriminated against in terms of differential and less favorable treatment in the hiring process (failing background investigations), and in terms and conditions of employment such as discipline, discharge, and assignment. In 2001 DOJ requested \$6.15 million in compensatory damages for a class of 100 victims of discriminatory terms and conditions of employment and an unspecified sum in back pay for a group of approximately 39 African-Americans who failed background investigations. The City considered that request unreasonable and urged DOJ re-consider its position. Since that time, DOJ has not responded. However, DOJ has declined to pursue litigation on behalf of seven of the charging parties and issued individual right to sue letters to them. To date, one suit has been served upon the City.

The Milwaukee Employees' Retirement System (MERS) is in the process of purchasing a computerized information system to assist in the administration of the City's pension system. The cost is expected to be in the range of \$11 to \$12 million. According to an agreement between the City and the MERS, the cost of the system is to be paid entirely by MERS. In this lawsuit, the Milwaukee Police Association alleges that the agreement between City and MERS limits MERS's obligation to pay for the information system to no more than \$3 million. If the suit is successful, the City might be liable to pay the remaining \$8 to \$9 million.

Environmental Liabilities

The City is exposed to numerous environmental liabilities, the most significant of which relate to seven landfills. Two of the seven landfills have been closed. Of the remaining four landfills that are no longer accepting waste, the Wisconsin Department of Natural Resources has imposed closure requirements on the North College Avenue Site, which the City substantially dosed during 2000. The Hartung landfill, which is used exclusively for clean fill, is expected to be closed within three years. The City has accrued \$800,000 in the government-wide financial statement, as part of general liability claims, for landfill closure related to the four sites. These amounts are based upon what it would cost to perform all closure activities in 2001. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

GASB Statement No. 18 *"Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs"* establishes requirements for disclosure of closure and postclosure requirements for all municipal solid waste landfills receiving solid waste after October 9, 1991. The City's landfills have not accepted waste of this type since 1976 and is therefore not required to accrue for closure and postclosure care in accordance with GASB Statement No. 18.

Intergovernmental grants

Intergovernmental awards received by the City are subject to audit and adjustment by the funding agency or their representatives. If grant revenues are received for expenditures, which are subsequently disallowed, the City may be required to repay the revenues to the funding agency. In the opinion of management, liabilities resulting from such disallowed expenditures, if any, will not be material to the accompanying financial statements at December 31, 2002.

CITY OF MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

Job Opportunity Bond Program

The Redevelopment Authority of the City of Milwaukee has issued certain Economic Development Bonds under the Job Opportunity Bond Program. Additional bonds may also be issued under this Program. These bonds are payable from a revenue fund to which the Authority has pledged and appropriated revenues to be received by the Authority from revenue agreements. In the event of an insufficiency of such revenues, these bonds are payable out of a program reserve fund and a common reserve fund maintained with respect to the program. In the event amounts available in these reserve funds fall below specified levels, the City has agreed, pursuant to the terms of the first amendment to the cooperation and pledge agreement, to consider making loans to the Authority to assist the Authority in maintaining the reserve funds at required levels. To date, the City has not loaned any funds for this purpose. This obligation is not enforceable by the Authority, the Trustee or the owners of the bonds against the City or the Common Council of the City or against any individual of the Council of the City or any officer or agent of the City.

14. SUBSEQUENT EVENTS

On April 3, 2003, the City issued \$20,580,000 of general obligation corporate purpose bonds for the purpose of financing various public improvement projects of the City. These bonds mature on March 15 of each year beginning 2004 until 2020. Interest is payable on March 15 and September 15 commencing September 15, 2003.

On April 3, 2003, the City issued \$13,855,000 of general obligation short-term promissory notes for the purpose of financing the purchase of 2001 real and personal property tax receivables. The notes mature on March 15 of each year beginning 2004 until 2009. Interest is payable on March 15 and September 15 commencing September 15, 2003.

On April 3, 2003, the City issued \$98,000,000 of short-term revenue anticipation notes for the purpose of temporarily financing the City's operating budget until the receipt of State shared revenues. These notes mature on December 15, 2003 with interest.

On July 7, 2003, the Common Council of the City authorized refunding of all or any part of general obligation corporate purpose bonds, series J, L, R, T, W, Y and general obligation refunding bonds, series 1993.

On July 10, 2003, the City issued \$33,855,000 of sewerage system revenue bonds for financing the costs of improvements to the City's sewerage system. These bonds mature June 1 of each year beginning 2005 until 2023. Interest is payable on June 1 and December 1 and commencing December 1, 2003.

CITY OF MILWAUKEE
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2002
(Thousands of Dollars)

Exhibit E-1

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance Positive (Negative)
	Original Budget	Final Budget		
Revenues:				
Property taxes	\$ 118,875	\$ 118,875	\$ 114,096	\$ (4,779)
Other taxes	2,198	2,212	2,944	732
Licenses and permits	9,558	9,558	10,814	1,256
Intergovernmental	282,750	282,750	283,068	318
Charges for services	50,664	50,986	57,749	6,763
Fines and forfeits	4,420	4,420	5,210	790
Other	<u>9,363</u>	<u>9,363</u>	<u>8,706</u>	<u>(657)</u>
Total Revenues	<u>\$ 477,828</u>	<u>\$ 478,164</u>	<u>\$ 482,587</u>	<u>\$ 4,423</u>
Expenditures:				
Current:				
General government	\$ 176,319	\$ 164,194	\$ 158,645	\$ 5,549
Public safety	205,688	211,615	211,163	452
Public works	90,859	90,729	88,094	2,635
Health	11,233	11,429	10,552	877
Culture and recreation	17,399	18,791	18,791	-
Conservation and development	<u>8,358</u>	<u>8,434</u>	<u>7,857</u>	<u>577</u>
Total Expenditures	<u>\$ 509,856</u>	<u>\$ 505,192</u>	<u>\$ 495,102</u>	<u>\$ 10,090</u>
Deficiency of Revenues over Expenditures	<u>\$ (32,028)</u>	<u>\$ (27,028)</u>	<u>\$ (12,515)</u>	<u>\$ 14,513</u>
Other Financing Sources (Uses):				
Transfers in	\$ 19,061	\$ 24,428	\$ 28,955	\$ 4,527
Transfers out	(3)	(3)	(3)	-
Contributions received	25,712	26,812	21,107	(5,705)
Contributions used	(25,327)	(21,084)	(20,378)	706
Use of fund balance - reserved for tax stabilization	<u>11,000</u>	<u>11,000</u>	<u>11,000</u>	<u>-</u>
Total Other Financing Sources and Uses	<u>\$ 30,443</u>	<u>\$ 41,153</u>	<u>\$ 40,681</u>	<u>\$ (472)</u>
Net Change in Fund Balance	<u>\$ (1,585)</u>	<u>\$ 14,125</u>	<u>\$ 28,166</u>	<u>\$ 14,041</u>
Fund Balance - Beginning (Excludes Reserved for Tax Stabilization)	<u>57,844</u>	<u>57,844</u>	<u>57,844</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 56,259</u>	<u>\$ 71,969</u>	<u>\$ 86,010</u>	<u>\$ 14,041</u>

Explanation of Differences of Budget to GAAP:

For budget purposes, the fund balance - reserved for tax stabilization is reflected as other financing sources whereas for accounting purposes, it is reflected as part of fund balance. The difference between the fund balance on a GAAP basis compared to budget basis is \$11,000 at January 1, 2002.

Contributions received and used for budget purposes are reported as other financing sources, but for GAAP are considered to be revenues and expenditures.

See accompanying independent auditors' report.

This Page Has Been Intentionally Left Blank

APPENDIX C

MILWAUKEE PUBLIC SCHOOLS

GENERAL

The Milwaukee Board of School Directors ("MPS") was established on February 3, 1846, and operates under Chapter 119 of the Wisconsin Statutes. The MPS has budget adoption authority (the City must then levy and collect a tax to support the MPS budget) and provides elementary, secondary, vocational and special education services for grades K through 12 to residents of the City, whose boundaries are coterminous with those of the MPS. MPS is effectively treated by State Statutes as a City department authorized by law to fix its own tax levy. All funds for MPS flow through the City Treasurer who, by Statute, disburses them at the direction of the Director/Board Clerk of the MPS. The City Comptroller, City Treasurer and City Attorney perform their respective functions for MPS as well as the City.

BORROWING - GENERAL OBLIGATION DEBT

MPS does not have authority to issue debt. The City has the authority (under either Chapter 67 or 119, Wisconsin Statutes) to issue municipal obligations for specific school purposes including the acquisition of sites and constructing, enlarging and remodeling of school buildings for the purpose of providing additional classroom space to accommodate anticipated school enrollments. Act 43 amended Chapter 119 to authorize the City to issue the 2003 City Notes to pay the UAAL. See "PLAN OF FINANCING" in the front portion of this Official Statement. Such municipal obligations require the adoption of a resolution by the City and the levying by the City of required debt service. As shown below, as of December 1, 2003, the City had outstanding general obligation debt for school purposes of \$101,196,599.

**CITY OF MILWAUKEE
OUTSTANDING GENERAL OBLIGATION DEBT
FOR SCHOOL PURPOSES
AS OF DECEMBER 1, 2003**

Year	Principal	Interest
2003	\$2,337,654	\$525,880
2004	10,795,642	4,674,116
2005	10,354,662	4,226,790
2006	9,952,755	3,761,131
2007	9,704,343	3,299,760
2008	9,324,285	2,862,851
2009	8,143,123	2,433,211
2010	7,743,865	2,034,295
2011	7,354,074	1,639,723
2012	6,487,514	1,282,989
2013	5,887,692	940,895
2014	5,067,847	641,073
2015	3,942,831	398,690
2016	2,720,987	192,986
2017	1,022,833	53,150
2018	310,093	10,072
2019	46,399	1,160
	<u>\$101,196,599</u>	<u>\$28,978,772</u>

Wisconsin Statutes establish a limit on the authority of the City to incur general obligation indebtedness in any form for City and school purposes of 7% of the full value of taxable property located within the City, as equalized by the Wisconsin Department of Revenue. Of the 7%, 2% is authorized for school purposes only. The City may issue bonded debt for school purposes pursuant to the provisions of Chapter 119 or Chapter 67. Bonded indebtedness issued by the City under Chapter 119 for school purposes is further limited to 2% of the full value of taxable property in the City as equalized by the State

Department of Revenue. Municipal obligations issued by the City under Chapter 67 for school purposes count against the City's debt limit of 5% of the full value of taxable property within the City. Debt issued under Chapter 67 requires adoption of a resolution by the City but does not require voter approval. The history of the full valuation of property for the City for the years 1998 to 2003 and the total unused debt margin as of December 1, 2003 are set forth in the following tables.

**HISTORY OF FULL VALUATION
IN THE CITY OF MILWAUKEE
(1998-2003)**

Levy Year	Collection Year	Full Valuation	Percent Increase/Decrease
1998	1999	\$16,228,218,000	+4.62
1999	2000	16,701,225,300	+2.91
2000	2001	17,344,251,400	+3.85
2001	2002	19,453,830,200	+12.16
2002	2003	20,298,387,000	+4.34
2003	2004	21,730,754,000	+7.06

**TOTAL UNUSED DEBT MARGIN FOR
THE CITY OF MILWAUKEE
AS OF DECEMBER 1, 2003**

2003 Equalized Value of Taxable Property in the City	\$21,730,754,000
--	------------------

Legal Debt Limitation for City Borrowing

5% of Equalized Value	\$1,086,537,700
General Obligation Debt Outstanding	
As of December 1, 2003 ⁽¹⁾	\$646,829,433
Less: Provision for 2003 Maturities	\$(8,230,000)

Net General Obligation Debt Outstanding as of December 1, 2003	\$638,599,433
---	---------------

Total Debt Margin for City Borrowing (In Dollars	\$447,938,267
--	---------------

(As a percentage)	41.23%
-------------------	--------

Legal Debt Limitation for School Purpose Borrowing

2% of Equalized Value	\$434,615,080
-----------------------	---------------

2003 City Notes	\$21,482,013
-----------------	--------------

Total Debt Margin for School Purpose Borrowing (In Dollars)	\$413,133,067
--	---------------

(As a Percentage)	95.06%
-------------------	--------

- (1) Includes \$101,196,599 of municipal obligations issued by the City for school purposes which applies against the City's debt limit of 5% of the value of equalized taxable property as specified by Section 67.03(1) of the Wisconsin Statutes.

REVENUE BONDS

Neighborhood Schools Initiative

In February 2002, RACM issued \$33,300,000 of its Revenue Bonds, Series 2002A and in November 2003, RACM issued \$78,740,000 of its Revenue Bonds, Series 2003A (Milwaukee Public Schools – Neighborhood Schools Initiative) (collectively, the "NSI Revenue Bonds"). RACM loaned the proceeds of the NSI Revenue Bonds to MPS to partially finance the initial cost of providing approximately 750,000 square-foot of additional classroom capacity for MPS schools, to implement the Neighborhood Schools Initiative and for related activities of MPS. MPS is obligated to make payments to RACM sufficient to pay the principal of and interest on the NSI Revenue Bonds. MPS's repayment obligation is payable solely from and secured by a pledge of all intradistrict aid received by MPS from the State

The schedule of remaining debt service payments (net of bond proceeds expected to be used to pay capitalized interest) on the NSI Revenue Bonds is as follows:

**CITY OF MILWAUKEE
REDEVELOPMENT AUTHORITY REVENUE BONDS
ANNUAL DEBT SERVICE PAYMENTS
AS OF DECEMBER 1, 2003**

<u>Fiscal</u> <u>Year</u>	<u>Debt Service</u>		<u>Debt Service</u>		<u>Debt Service</u>
<u>Ending</u> <u>June 30</u>	<u>Payments</u>	<u>Year</u>	<u>Payments</u>	<u>Year</u>	<u>Payments</u>
2004	\$ 0	2011	\$8,766,641	2018	\$10,348,171
2005	0	2012	8,974,833	2019	10,594,094
2006	3,203,772	2013	9,205,469	2020	10,843,059
2007	2,309,926	2014	9,422,223	2021	11,075,106
2008	6,663,799	2015	9,644,614	2022	11,338,378
2009	7,788,184	2016	9,876,640	2023	11,598,175
2010	8,689,218	2017	10,106,960	2024	11,871,609

Lease Revenue Bonds

On November 8, 1990, \$47,730,866 RACM issued revenue bonds (the "1990 Bonds") on behalf of the Wisconsin Preservation Fund, Inc. to acquire and renovate several facilities for lease and occupancy by MPS which is utilizing the facilities as middle schools, K-8 elementary schools and various common facilities related to public education. RACM subsequently issued \$39,415,000 Development Revenue Refunding Bonds, dated April 15, 1993 (the "1993 Bonds") to advance refund certain of the 1990 Bonds.

In May 2003, the RACM issued \$34,475,000 Development Revenue Refunding Bonds, Series 2003 (the "Series 2003 Bonds") on behalf MPS to refund the 1993 Bonds.

The Series 2003 Bonds do not constitute general obligations of MPS or the City and shall not constitute or give rise to a charge against the City's taxing powers. MPS does, however, have an obligation to pay rents under a lease to support the debt service on the Series 2003 Bonds. Under the lease, the annual rent payments constitute a budgeted expenditure of MPS payable only if funds are budgeted and appropriated annually by the MPS from its School Operations Fund. MPS's obligations under the lease may be terminated on an annual basis by MPS if MPS fails to budget and appropriate for lease payments.

The schedule of lease payments after taking into account the 2003 financing is as follows:

**REDEVELOPMENT AUTHORITY OF THE CITY OF MILWAUKEE
DEVELOPMENT REVENUE REFUNDING BONDS
(2430 West Wisconsin Avenue Project and 1600 North Martin Luther King Drive Project)
ANNUAL LEASE PAYMENTS
AS OF DECEMBER 31, 2003**

<u>Year</u>	<u>Lease Payments</u>	<u>Year</u>	<u>Lease Payments</u>
2004	\$2,402,023	2010	\$3,859,038
2005	3,873,248	2011	3,853,819
2006	3,863,473	2012	3,848,400
2007	3,882,524	2013	3,844,688
2008	3,868,773	2014	3,842,950
2009	3,867,368		

BORROWING - FUTURE FINANCING

The 2004 adopted City Budget contains \$22,580,000 of borrowing authority for MPS deferred maintenance; expansion of facilities; fiscal reporting systems; and Americans with Disabilities Act related improvements. Of this amount, \$10,580,000 represents prior year authorizations yet to be sold and \$12,000,000 represents new 2004 authorizations. At the beginning of each fiscal year, MPS issues cash flow revenue anticipation notes (RANs) to finance general operations pending receipt of State Aid. The most recent cash flow RANs were sold in September 2003 in the amount of \$150,000,000 and mature on June 30, 2004.

BOARD OF SCHOOL DIRECTORS

MPS is governed by a nine member Board of Directors. Eight Directors represent and are elected by Districts from within a total population of approximately 596,000. One member is elected at-large. Directors serve staggered four year terms which expire in April, and annually, at its organizational meeting, elect a president. The current members and the years in which their terms of office expire are as follows:

Jeff Spence, President	(2007)	Charlene Hardin, Vice President	(2005)
Joseph Dannecker	(2007)	Jennifer Morales	(2005)
Lawrence J. O'Neil	(2005)	Peter Blewett	(2005)
Barbara P. Horton	(2007)	Thomas F. Balistreri (At-Large)	(2007)
Kenneth L. Johnson	(2007)		

The City Officials who serve in identical capacities for MPS, and the year in which their terms of office expire are as follows:

W. Martin Morics	Comptroller	(2004)
Grant F. Langley	Attorney	(2004)
Wayne F. Whittow	Treasurer	(2004)

PUBLIC SERVICES AND FACILITIES

MPS has approximately 99,054 full-time equivalent students and 7,309 teachers. It maintains 116 elementary schools, 21 middle schools, 19 high schools, one K-12 school and 2 MPS alternative schools. The average age of the MPS buildings is just over 50 years. However, significant investment was made in upgrading many of these buildings in the 1970's and 1980's.

The purpose and responsibility of MPS is to provide an efficient educational system for children enrolled in the public schools, whereby each child has access to programs and services that are appropriate to his or her educational needs. In addition to the regular educational programs, MPS offers comprehensive programs in the areas of vocational education, special education, and bilingual education. Through its specialty school programs, MPS offers advanced educational programs in such areas as fine arts, computer science, health professions, business, and technical trades. In addition, MPS provides community recreation and education services through its parks and centers for the elderly.

All of MPS has been accredited by the North Central Association of Colleges and Schools.

ENROLLMENT

Average School Daily		Average School Daily	
<u>School Year</u>	<u>Membership⁽¹⁾</u>	<u>School Year</u>	<u>Membership⁽¹⁾</u>
1991-1992	91,071	1997-1998	102,914
1992-1993	94,694	1998-1999	102,097
1993-1994	96,496	1999-2000	100,682
1994-1995	98,312	2000-2001	99,332
1995-1996	99,278	2001-2002	99,025
1996-1997	101,622	2002-2003	99,054

(1) Kindergarten 1/2 day membership converted to full day equivalents.

FINANCIAL INFORMATION

MPS has full control of all expenditures and revenues required to operate the school district. Section 119.46 of the Wisconsin Statutes requires MPS to transmit to the City a budget to operate, maintain, equip and improve the schools. The City's Common Council must levy and collect property taxes equal to the amount of money budgeted by MPS. All taxes so collected and all other funds received by MPS for these purposes are deposited to the School Operations Fund. The audited financial statements of this and other funds under the control of MPS for the year ended June 30, 2002 are set forth in Appendix D of this Official Statement.

INSURANCE

MPS carries Commercial General Liability Insurance, Auto Liability, Umbrella Excess Liability Insurance, and School Leaders Errors and Omissions Insurance. In addition, Section 893.80 of the Wisconsin Statutes, limits the amount recoverable against a political corporation, its officers, officials or employees for acts done within the scope of their official capacity to \$50,000 in tort liability for non-automobile cases and \$250,000 in automobile cases.

MPS is self-insured for health, dental, and workers' compensation benefits and certain other general liability exposures. The accrued liability for estimated self-insured claims of \$27,108,210 recorded in the School Operations Fund and \$2,375,064 in the General Long-Term Obligations Account Group represents an estimate of the amount of claims incurred, but not paid or reported as of June 30, 2002. MPS has also recorded a deposit for self insurance and a reserve of fund balance aggregating \$4,354,005 at June 30, 2002 to provide for payment of future claims.

INVESTMENT POLICIES

The City may invest any of its funds, including MPS funds, not immediately needed in accordance with Section 66.04(2) of the Wisconsin Statutes. The City, through Common Council Resolution 930358, adopted July 6, 1993, has instructed the City Treasurer to invest City funds, including MPS funds, in: (a) Certificates of Time Deposit at approved public depositories limited to the equity capital or net worth of the financial institution with collateralization required when total deposits at any institution exceed \$500,000; (b) Repurchase Agreements with public depository institutions; (c) the State of Wisconsin Local Government Investment Pool; (d) U.S. Treasury and Agency instruments and (e) commercial paper which has a rating in the highest or second highest rating category assigned by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Services, Inc., or some other similar nationally recognized rating agency. To the extent possible, the City Treasurer attempts to match investments with anticipated cash flow requirements. No limits have been placed on how much of the portfolio can be invested in any of the above investment categories.

The State of Wisconsin Investment Board ("SWIB") provides the Local Government Investment Pool as a subset of the State Investment Fund (the "Fund"). The Local Government Investment Pool includes deposits from elective participants consisting of over 1,000 municipalities and other public entities. The Fund also consists of cash balances of participants required to keep their cash balances in the Fund. These required participants include the State General Fund, State agencies and departments and Wisconsin Retirement System reserves. The Local Government Investment Pool portion of the Fund is additionally secured as to credit risk.

SWIB invests the assets of the Fund, which includes assets of the Local Government Investment Pool. Overall policy direction for SWIB is established by an independent, eight-member Board of Trustees (the "Trustees"). The Trustees establish long-term investment policies, set guidelines for each investment portfolio and monitor investment performance.

The objectives of the Fund are to provide (in order of priority) safety of principal, liquidity, and a reasonable rate of return. The Fund includes retirement trust funds cash balances pending longer-term investment by other investment divisions. The Fund also acts as the State's cash management fund and provides the State's General Fund with liquidity for operating expenses. The Fund is strategically managed as a mutual fund with a longer average life than a money market fund. This strategic advantage is made possible by the mandatory investment of State funds for which the cash flow requirements can be determined significantly in advance. Because of the role played by the Fund, the cash balances available for investment vary daily as cash is accumulated or withdrawn from various funds.

A copy of SWIB's annual report may be obtained by submitting a written request to the State of Wisconsin Investment Board, P.O. Box 7842, Madison, WI 53707-7842.

The Local Government Investment Pool is a local option City depository. The City utilizes the Local Government Investment Pool in a manner similar to a "money market" account. When other investment options provide more favorable results, such options are utilized. As of June 30, 2003, the City had approximately 63% (\$230,000,000) of its and MPS's investments deposited in the Local Government Investment Pool.

REVENUES OF MILWAUKEE PUBLIC SCHOOLS

SOURCES OF FUNDING

In addition to borrowing, MPS revenues are derived from three major sources - local property taxes, state school aids and federal school aids. Sources of MPS revenues are detailed in the four year summary presented under the caption "REVENUES OF MILWAUKEE PUBLIC SCHOOLS-General Operations Fund Trends".

LOCAL PROPERTY TAX

Property taxes levied on behalf of MPS by the City account for a significant portion of the School Operations Fund revenues available to MPS. For the fiscal years 2001-2002 and 2002-2003, MPS's share of the levy produced approximately \$158,610,459 and, \$162,696,867 respectively, of the total revenues to the School Operations Fund. MPS's 2003-2004 School Operations Fund revenues are budgeted at \$937,649,551 of which City ad valorem property taxes are estimated at \$163,554,998, an increase of approximately 0.5% from 2002-2003.

MILWAUKEE PUBLIC SCHOOLS PROPERTY TAX LEVIES⁽¹⁾ ALL FUNDS (1998-2003)

<u>Levy Year</u>	<u>Collection Year</u>	<u>Taxes Levied</u>
1998	1999	\$173,492,952
1999	2000	160,561,007
2000	2001	169,720,932
2001	2002	174,734,593
2002	2003	181,046,151
2003	2004	183,198,437

(1) Exclusive of Tax Incremental District levies.

In addition to taxes for operations levied under Section 119.46 of the Wisconsin Statutes, the MPS by two-third vote of members elect may direct the City to levy a tax to provide funds to purchase school sites and construct or remodel school buildings. The school construction fund taxes in any one year may not exceed 0.6 mills on each dollar of assessed valuation of taxable property in the City.

Property Subject to Taxation - The City, at the direction of the MPS, is required to levy and collect ad valorem taxes on or against all taxable property within MPS. Both real and personal property are subject to taxation, but there are certain classes of property which are exempt from taxation. These include, but are not limited to, property of the United States of America; property of the State and its political subdivisions; public libraries; public school property; certain charitable property not used for profit; religious property; manufacturing machinery and equipment; business computers; non-profit cemeteries; household furnishings and personal effects not used to produce income; intangible personal property; and inventories of merchandise and materials and supplies which are held for consumption by a business or are held primarily for sale.

Assessment of Property - The City Tax Commissioner's staff of assessors and appraisers annually conducts appraisals in order to determine the full (fair market) value of all non-manufacturing taxable real property and full cash value of all taxable personal property within MPS as of January 1st. Real property is divided into classes for taxation purposes. In cities there are four classes of real estate: (1) Residential; (2) Commercial; (3) Manufacturing; and (4) Agricultural.

The assessed value of a property is intended to represent current full market (cash) value and, with certain exceptions, is determined from manuals and associated data published by the State Department of Revenue. The State Department of Revenue certifies the competency of local assessors and supervises the administration of all laws concerning the valuation and assessment of taxable property and the levying of property taxes. Annually, the Department analyzes sales data reported to the Register of Deeds for each county to determine the relative level of local assessments to actual market sales. This process is referred to as "equalization". The ratios developed by the Department of Revenue are reported to each assessor.

Assessed valuation represents the value upon which ad valorem property taxes are levied. Wisconsin law requires that assessed values in any taxation district be established within 10% of "full value," as determined by the Department of Revenue, at least once during each four year period ending with the current year. If a district fails to meet this criteria in any year, the district's assessors are subject to special supervision by Department of Revenue employees during the ensuing

assessment year. For 2002, the City's ratio of assessed to equalized value, as reported by the Department of Revenue, was 98.0 percent. Full values of any two major classes of property must also be within 10% during such four-year period or State Revenue Department supervision is required.

For each assessment year the City assessors must complete their assessments for review by the Tax Commissioner on or before the second Monday in May.

Manufacturing property is assessed by the Wisconsin Department of Revenue which annually notifies the City of the assessed value of all such property to be placed on the City tax roll. Manufacturing machinery and equipment are exempt from local property taxes.

Property owners are notified of increases in assessed valuation of their land or improvements, or taxable personal property in accordance with certain statutory deadlines. Property owners are given the opportunity to object to the amount or valuation of their real or personal properties by filing written objections with the board of assessors, which consists of the chief assessor, chief appraiser, supervising assessors and assistant supervising assessors of the Tax Commissioner's office and a City Board of Review or, for State assessments of manufacturing property, by the State Tax Appeals Commission. The City Board of Review consists of nine residents of the City appointed by the Mayor with approval of the City Common Council for staggered five-year terms.

Adjustments for increases or decreases in assessed values resulting from appeals are made. Upon conclusion of such hearings, the tax assessors are required to complete the assessment roll of all taxable property for the City and return it to the City Tax Commissioner no later than the first Monday of November each year. The Tax Commissioner must prepare the tax roll and return it to the City Treasurer for collection no later than the third Monday in December. Assessments may be appealed to the State courts from the Board of Review or State Tax Appeals Commission within a short period of time, provided the taxes are paid timely on the challenged assessment. Refund of any excess taxes paid may be ordered by the court. If rebated or abated taxes reduce equalized values of the City, the Wisconsin Department of Revenue may prorate the rebated amounts among all taxing jurisdictions which levied a tax against the subject property or adjust equalized values.

Mill Levies Affecting MPS Property Owners - In 1996, the Governor and the State legislature approved reducing funding for schools from property taxes. On a statewide basis, Wisconsin approved increasing its proportionate share of school aid from 40% to at least 66.7% beginning in 1996-1997.

In addition to MPS's tax levy, owners of property within the MPS district are obligated to pay taxes to other taxing entities in which their property is located. There are five other active taxing entities which have authority to levy ad valorem property taxes on property within MPS. These include the City, Milwaukee County, State of Wisconsin, Vocational School District and Milwaukee Metropolitan Sewerage District. As a result, property owners within the School District's boundaries are subject to a variety of different mill levies.

The 2002 levies (collected in 2003) for non-MPS purposes were as follows:

City of Milwaukee	\$197,000,000
Milwaukee County	100,800,000
MATC	39,800,000
Metropolitan Sewerage District	33,700,000
State Forestry Tax	4,100,000

The net tax rate for all taxing jurisdictions in 2002 was \$27.25 per assessed thousand of property valuation.

Property Tax Collections - Taxes levied in one year are collected in the succeeding year. Thus, taxes certified in 2003 will be collected in 2004. Taxes are due on January 31st in the year of collection; however, taxes on real property may be paid in 10 equal installments not later than the last day of each month from January to October without interest or penalty. Personal property taxes may be paid in 7 equal installments on the last day of each month from January to July without interest or penalty. First installments which are not timely paid within the prescribed time bear interest at the rate of 1% per month until paid, plus 0.5% of the tax with interest from January 31 and penalty. The City Treasurer collects current and delinquent property taxes, as well as any interest or penalty, and after deducting a statutory fee for such collection, remits the balance to MPS on a monthly basis from January through May and any balance of the annual levy remaining at June 30 is remitted to MPS in early July. If a tax payment is insufficient to pay all charges, City special charges, special assessments and special taxes are paid before MPS receives its share of the levy.

All taxes levied on property, together with interest thereon and penalties for default, as well as all other costs of collection, constitute a perpetual lien on and against the property taxed from January 1 of the levy year until paid. Such lien is on a

parity with the tax liens of other general taxes. It is the City Treasurer's duty to enforce the collection of delinquent real property taxes by tax sale of such realty. Delinquent personal property taxes are enforceable by an action in debt and the property taxed or other property may be seized on execution to pay the judgment. Tax sales on realty are held on or before the second Monday in December of the collection year, preceded by a notice of delinquency to the taxpayer and a minimum of four weeks of public notice of the impending sale. Sales of personal property may be held at any time after October 1st of the collection year following notice of delinquency and public notice of sale. There can be no assurance, however, that the value of property sold, in the event of foreclosure and sale would be sufficient to produce the amount required with respect to taxes levied for MPS, taxes levied by overlapping taxing entities, as well as any interest or costs due thereon. Further, there can be no assurance that the property will be bid on and sold and if that should occur, the City Treasurer will remove the property from the tax rolls and delinquent taxes are payable when the property is sold or redeemed.

SCHOOL AIDS

The Wisconsin Constitution requires the State Legislature to provide for establishment of district schools "which shall be free and without charge for tuition to all children between the ages of 4 and 20 years". MPS receives revenues from the State in the form of general school aids. State school aids are divided into two general categories referred to as general and categorical aids. General school aids are determined by formula based upon pupil membership and property valuation. Categorical aids are based upon specific instructional or supporting programs.

In 1996, the Governor and the State Legislature approved reducing funding for schools from property taxes. The State approved increasing its proportionate share of school aid from 40% to at least 66.7% beginning in 1996-1997.

In 2003, the Governor and the State Legislature determined that the State could no longer afford to target 66.7% funding for school aid.

STATE AIDS

Equalization Aid

The school district receives the majority of its revenues from State equalization aid. Equalization aid is paid based on a formula designed to compensate for differences in property values between Wisconsin school districts. The effect is to equalize the property tax base supporting each Wisconsin student.

The State guarantees a minimum tax base to support the education of each public school child. The ratio of the district's equalized valuation to the State's guaranteed valuation determines the percentage of shared costs funded by local property tax verses State equalization aid.

$$\text{Equalization Aid} = \text{Shared Costs} \times \frac{\text{Net Guaranteed Valuation}}{\text{Guaranteed Valuation}}$$

where Net Guaranteed Valuation equals Guaranteed Valuation minus Equalized Valuation. Shared Costs equals the net cost of the general fund plus the net cost of the debt service fund.

MPS's annual revenue per pupil has been above the State-wide average during the past three school years (as detailed below), but these revenues have been met with above average federal and State aid payments.

ANNUAL REVENUES PER PUPIL

	Statewide			Milwaukee		
	1998-99	1999-2000	2000-2001	1998-99	1999-2000	2000-2001
Revenue/Pupil	\$8,290	\$8,590	\$9,011	\$8,637	\$8,979	\$9,264
Federal Share (%)	4.60	4.51	4.95	11.33	11.59	11.94
State Share (%)	54.67	55.39	55.32	67.60	69.29	68.21
Local Share (%)	40.73	40.10	39.73	21.07	19.11	19.85

Integration Aid

MPS also receives integration aid from the State under a plan where compensation is paid for each minority pupil transferring from an attendance area where minority pupils comprise 30% or more of the population to an attendance area which has less than a 30% minority population. Also, aid is paid for each non-minority pupil transferring from a non-minority attendance area to a minority attendance area.

The State provides for intradistrict transfer aid as well as interdistrict transfer aid. Intradistrict aid is calculated by multiplying the number of eligible transfer pupils by .25 and multiplying the product by the district's current equalization aid per pupil.

For interdistrict transfers, the State provides a financial incentive for both the sending and receiving districts. The receiving district is paid an amount equal to its average cost per pupil for each student it receives. The sending district is allowed to continue to count the transferred students for equalization aid purposes at 0.75 full-time equivalent (FTE), thereby removing any disincentive for transferring students. MPS must pay the transportation costs for its students sent to other districts, as well as the students it receives from other districts.

STATE CATEGORICAL AIDS

MPS receives State categorical aids to finance or reimburse specific categories of instructional or supporting programs.

Pupil transportation aids are paid to reimburse MPS for transportation of public and non-public school pupils. Reimbursement for transportation aids is made on the basis of the number of children/mileage transported during the prior year and miles transported during the regular school year, with an additional flat per pupil payment for summer school. MPS is not required to transport children who live two miles or less from the school attended following the shortest commonly traveled route unless the route is considered hazardous.

The State pays tuition for the following types of children attending public schools:

- a) children in children's homes;
- b) children of parents employed at and residing on the grounds of a state or federal military camp, federal veteran's hospital, or state, charitable or penal institution; and
- c) children in foster homes or group homes if the home is located outside the district in which the child's parent or guardian resides and is exempt from property tax.

School library aid paid from the common school fund under Article 10, sections 4 and 5 of the Wisconsin Constitution and Section 43.70 of the Wisconsin Statutes, is distributed on the basis of the number of children between age 4 and 20 residing in the district as of June 30 of the year before payments are made. School library aid payments to MPS for 2002-2003 were \$2,080,797 or \$13.87 per child.

The State pays special aids to the district to finance approved programs for handicapped children or children with exceptional educational needs, including those with visual or hearing disabilities, speech or language disabilities, learning disabilities and requiring homebound instruction. This aid has been decreasing as a percent of costs for the last two decades.

Other categorical aids include grants for demonstration projects to assist minors in avoiding or overcoming problems resulting from the abuse of alcohol or drugs; State matching payments for school lunch programs required under 42 U.S.C. 1751, et. seq.; elderly food service aid; grants to provide pre-school structured educational experience focusing on the needs of low-income pupils and encouraging early skill development; bilingual/bicultural aids for programs designed to improve comprehension, speaking, reading and writing ability of limited English speaking pupils in the English language; youth initiatives for education and training programs for youths 14 through 21; and Wisconsin morning milk program for children enrolled in kindergarten through grade 5. MPS also receives funding under Sections 119.71, 119.72 and 119.74 of the Wisconsin Statutes for five-year old kindergarten and early childhood education.

These categorical aids are in addition to equalization aid and integration aid.

PARENTAL CHOICE PROGRAM

Beginning in the 1990-91 school year, low-income children constituting up to 1.5% of the pupils in grades kindergarten to 12 residing in the City and enrolled in MPS may attend at no charge any private non-sectarian school located in the City which meets all public school health and safety laws and codes, complies with federal non-discrimination laws and meets a standard of advancement, attendance, academic progress, or parental involvement. Beginning in the 1996-97 school year, no more than 15% of the school district's membership may attend private school under Wisconsin Statute 119.23. Upon proof of a pupil's enrollment in the private school the State Superintendent provides a proportionate share of basic and supplemental State school aids. Prior to fiscal year 2000, payments to Parental Choice Schools were deducted from MPS aid entitlements. Beginning with fiscal year 2000, these payments were made from an appropriated sum sufficient for this purpose.

For the 2002-03 school year, approximately 10,300 low-income children enrolled in the Milwaukee Parental Choice Program.

FEDERAL SCHOOL AIDS

In addition to State school aids, MPS receives federal aids for specific school programs.

The federal government provides basic school lunch aid to school districts. This program is administered by the State Department of Public Instruction. For the 2002-2003 school year, MPS received in excess of \$19,900,000 in basic lunch aid under the federal program administered by the United States Department of Agriculture through the Wisconsin Department of Public Instruction.

MPS has applied for and received federal aid for numerous other programs. In general, these federal aids are known as categorical aids and require MPS to make the expenditure first, with federal reimbursement following. The federal programs administered by the Wisconsin Department of Public Instruction from which MPS received program reimbursement in 2002-2003 include the following: Public Law 89-313 providing funds for handicapped children; Title I - Disadvantaged and Low Income Children; Special Education – Grants to States; Carl Perkins Act; Emergency Immigrant Educational Assistance; Title II; Public Law 99-457. MPS received aid directly from the Federal Government in the case of several federal programs including the Drug Free Schools program and Headstart.

For the year 2002-2003, total federal aids to MPS for food services and other categorical aids is estimated to be approximately \$150,000,000.

GENERAL FUND TRENDS

Equalization aid revenues in the 2001-2002 school year rose by approximately \$11 million due to increased shared costs in the previous year. Property tax revenues increased almost \$4 million.

Total expenditures increased \$46 million in 2001-2002 over the previous year. Expenditures for instructional services were 57% of total expenditures, approximately the same as it has been for the last four years. The District remains under a revenue cap limitation first imposed in 1993-1994. Despite this restriction, MPS expects to provide all necessary instructional and operating services without major disruptions.

Following is a summary of the MPS School General Fund Actual Revenues and Expenditures for the fiscal years ended June 30, 1999 through June 30, 2002.

**MILWAUKEE PUBLIC SCHOOLS SCHOOL
GENERAL FUND⁽¹⁾
FOUR YEAR SUMMARY**

	Actual Results⁽¹⁾			
	2002	2001	2000	1999
	Year End ⁽³⁾	Year End ⁽²⁾	Year End ⁽²⁾	Year End ⁽²⁾
Revenues				
Property tax levy	\$ 161,632,008	\$ 157,722,667	\$ 127,860,679	\$ 182,170,049
Other local sources	9,680,243	15,366,978	7,062,827	6,275,459
State aid:				
Equalization aid	541,388,517	530,389,369	522,070,078	486,666,416
Special classes	41,148,872	40,368,704	38,472,504	38,729,189
Integration	38,830,913	38,440,145	38,233,657	36,234,250
Other state aid	45,394,469	40,951,986	28,550,951	27,961,202
Federal aid:				
Education Consolidation Improvement Act	48,563,189	55,354,654	52,528,477	46,768,612
Other federal aid	54,871,879	37,731,529	28,316,620	28,007,123
Total Revenues	941,510,090	916,326,032	843,095,793	852,812,300
Expenditures				
Current operating:				
Instructional services:				
Undifferentiated curriculum	355,934,282	320,617,524	310,522,755	299,603,871
Regular and other curriculum	110,567,911	110,455,959	113,520,399	127,406,015
Special curriculum	93,443,822	87,734,737	84,078,345	83,556,556
Total instructional services	559,946,015	518,808,220	508,121,499	510,566,442
Community services	18,312,322	6,100,828	5,483,069	6,985,650
Pupil and staff services	84,849,657	83,973,255	81,329,833	76,998,951
General and school building administration	82,821,806	74,585,940	72,226,305	69,333,560
Business services	150,643,630 ⁽⁶⁾	139,612,052	135,631,737	130,480,859
Other	54,246,349	60,739,866	48,804,033	28,323,635
Capital outlay:				
Sites and buildings	-	5,694,450	8,094,567	8,267,995
Furniture and equipment	-	14,991,028	7,606,763	19,004,182
Total Expenditures	950,819,779	904,505,639	867,297,806	849,961,274
Other Financing Sources (Uses)				
Capital Leases	0	5,620,094	3,358,759	12,892,634
Transfers in (out)	(351,168)	0	0	0
Total Other Financing Sources	(351,168)	5,620,094	3,358,759	12,892,634
Net Change in Fund Balances	(9,660,857)	17,440,487	(20,843,254)	15,743,660
Fund balance - beginning of year			95,773,929	80,030,269
Fund balance - beginning of year, as restated	127,569,773 ⁽⁵⁾	100,961,458 ⁽⁴⁾		
Fund balance - end of year	\$117,908,916	\$118,401,945	\$74,930,675	\$95,773,929

(1) 2002 reflects the GASB 34 reporting format. 1999 through 2001 follows the previous GAAP reporting format. Therefore information for the year 2002 is not directly comparable to 1999-2001.

(2) Source: Comprehensive Annual Financial Reports, Schedule 2, for 1999, 2000 & 2001.

(3) Source: Comprehensive Annual Financial Report for June 30, 2002, p.35.

(4) In 2001, due to GASB Statement 33, Beginning Fund balance was increased to reflect \$26,030,783 of property taxes levied in the prior year and deferred as of June 30, 2000.

(5) In 2002, due to GASB Interpretation 6, Beginning Fund balance was increased to reflect \$5,985,503 of Accrued Compensated Balances, and \$3,182,325 of Self-insurance claims.

(6) Also in 2002, due to GASB Statement 34, \$24,377,764 of Capital Outlay was allocated among the expense category and the remainder was moved to the Construction Fund.

**Milwaukee Public Schools
School Operations Fund Final Budget
Fiscal year 2004 and 2003**

	2003-2004 <u>Budget (1)</u>	2002-2003 <u>Budget (1)</u>
REVENUES		
Locally Generated:		
Property Tax Levy	\$ 163,554,998	\$ 162,696,867
Other Local Sources	70,903,271	44,681,342
Subtotal	<u>234,458,269</u>	<u>207,378,209</u>
State Aid:		
Equalization Aid	575,069,738	556,168,855
Special Education	40,762,610	40,400,000
Integration	39,437,167	38,717,682
Other	12,926,767	14,162,373
Subtotal	<u>668,196,282</u>	<u>649,448,910</u>
Federal Aid:		
School Nutrition Commodities & Fed. Indirect	29,165,000	28,118,400
Other	4,530,000	4,000,000
Subtotal	<u>33,695,000</u>	<u>32,118,400</u>
TOTAL REVENUES	<u>936,349,551</u>	<u>888,945,519</u>
plus Use of Surplus	1,300,000	20,084,659
TOTAL SOURCES OF FUNDS	<u>937,649,551</u>	<u>909,030,178</u>
 EXPENDITURES (2)		
Instructional Services	512,236,493	489,386,512
Support Services	425,413,058	419,643,666
TOTAL EXPENDITURES	<u>937,649,551</u>	<u>909,030,178</u>
 SUMMARY		
Total Revenues and Use of Surplus	937,649,551	909,030,178
Total Expenditures	(937,649,551)	(909,030,178)
Difference	<u>\$ -</u>	<u>\$ -</u>

(1) Final Amended Fiscal 2003 and 2004 School Operations Fund Budgets with Total Revenues, Total Expenditures and Use of Surplus approved by the Milwaukee Board of School Directors in October, 2002 for the 2002-2003 Budget and October, 2003 for the 2003-2004 Budget.

(2) Expenditure categories include allocations based on estimates and may differ from actual experience.

Litigation

Milwaukee Public Schools, its board, officers and employees have been defendants in numerous lawsuits over the years. Experience has shown that a relatively small number of suits commenced are reduced to judgment. Milwaukee Public Schools does carry Commercial General Liability Insurance, Umbrella General Liability Insurance and School Teachers Error and Omissions Insurance. In §893.80 of the Wisconsin Statutes limits the amount recoverable against a political corporation, its officers, officials or employees for acts done in their official capacity to \$50,000 in tort liability for non-automobile cases and \$250,000 in automobile cases.

The City Attorney's Office has currently reviewed the status of pending or threatened litigation, claims and assessments to which the office has devoted substantive attention in the form of legal consultation or representation and which individually represent a maximum potential loss exposure in excess of \$1 million, existing on December 8, 2003.

Beverly Coleman v. Milwaukee Board of School Directors, USDC Case numbers 01-C-0729 and 01-C-0463 are consolidated cases wherein plaintiff alleges violations of Title VII of the Civil Rights Act of 1964, as amended in the form of discrimination on the basis of race (African American), and gender (female) by both discriminatory acts and by hostile work environment. Plaintiff also alleges retaliation for having engaged in protected activity of prior complaints of discrimination and alleges violations of the American with Disabilities Act in the form of disability discrimination and failure to accommodate. Plaintiff further alleges violation of her constitutional rights (Thirteenth Amendment) by acts of intentional discrimination based upon race impairing her right to contract. In February 2003, the Court allowed plaintiff to file a second amended complaint that incorporated earlier allegations along with more recent events, including her discharge from employment. Plaintiff claims her discharge was in violation of Title VII and the ADA. The second amended complaint has been answered, and a scheduling order entered. Trial is set for November 2004. MBSD intends to defend vigorously. There is a small likelihood of an unfavorable outcome. It is too early to determine the amount or range of potential loss.

Lamont A., et al v. Milwaukee Board of School Directors, et al, USDC Case number 01-C-0928. This is a federal civil rights suit, pending in the U.S. District Court, Eastern District of Wisconsin. It is filed on behalf of seven MPS special education students, alleging violations of the Individuals with Disabilities Education Act, the Rehabilitation Act of 1973 (Sec. 504) and Section 1983 of the Civil Rights Act of 1871 (42 U.S.C. 1983). The suit alleges that MPS violated the statutory and constitutional rights of the named plaintiffs as a result of MPS' delivery, and/or failure to provide education and services required under federal statutes. The suit also seeks certification of a class action of all MPS special education students, who number in excess of 16,000 students. The class allegations assert that MPS systematically violates the rights of all special education students.

Plaintiffs seek equitable relief, including the entry of injunctions against MPS requiring MPS to ensure that the District provides education and services called for under the federal statutes. Plaintiffs also seek compensatory relief, in the form of compensatory education. It is unclear at this time whether plaintiffs are seeking monetary relief. Plaintiffs also seek attorneys fees and expenses. MBSD has denied the allegations in the complaint and has opposed the plaintiffs' motion to certify the purported class of plaintiffs.

On May 23, 2003, the federal district court issued its decision regarding class certification. The Court narrowed the scope of the plaintiffs' claims by excluding those that the Court found required the plaintiffs to first exhaust their administrative remedies. The Court further ruled that the class definition must be changed to reflect its decision. The plaintiffs submitted an amended motion for class certification and the MBSD submitted its response at the end of July, 2003, opposing plaintiffs' motion. The parties are awaiting the Court's decision on the issue of an amended class.

MBSD continues to defend rigorously on both procedural and substantive grounds. It is still too early to determine the likelihood of an unfavorable outcome or the amount or range of potential loss.

Milwaukee Teachers' Education Association v. Milwaukee Board of School Directors, Milwaukee County Circuit Court case number 03CV002552. The plaintiff union claims that retroactive wage payments under the 2001-2003 collective bargaining agreement between the union and the Board were paid more than 31 days after the effective date of the contract in violation of Wis. Stat. § 109.03(1), Wisconsin's Wage Payment statute. The union seeks a declaratory ruling that the Board violated the statute, an injunction precluding the Board from violating the statute in the future and compelling the Board to make the retroactive wage payments, attorney's fees, and a penalty under § 109.11(2)(a) of up to 50% of the amount of wages that were not paid within the 31-day statutory period required by the statute. The Board paid the retroactive wages in April, 2003, approximately five months after ratification of the bargaining agreement that required the retroactive payments. The retroactive payments made at that time totaled \$11,820,452; accordingly, the maximum penalty that could be assessed against the Board is \$5,910,226.

The issuance of penalties under the wage payment statute is discretionary, and it seems somewhat unlikely that a judge would penalize the school district under the particular circumstances of this case: here, the union specifically sought delay of several months in implementation by the Board of salary increases under the 2002-2003 bargaining agreement; historically, retroactive payments (which require considerable time to calculate and implement) had been made only 1 to 3 months after implementation of salary increases. Arguably, this represents a contractually binding past practice that, under the statute, establishes an exception to the 31-day requirement; at a minimum, it constitutes a mitigating factor to any delay that would seem to support not imposing a penalty upon the Board. Regardless, it appears likely (though no decision has addressed the issue yet) that no discretionary penalty can be imposed under the statute unless a plaintiff has first filed a claim with the Department of Workforce Development Labor Standards Bureau, something the plaintiff failed to do so in the present case. In addition, the plaintiff failed to file a notice of injury and claim with the Board before commencing this action. Such notice is required under Wis. Stat. § 119.68(2), and failure to file such a notice mandates dismissal of a complaint. Although no cases have considered whether a notice of injury and claim is required before commencing a Chapter 109 wage action, there are persuasive arguments that it is. If the present case is dismissed due to the plaintiff's failure to file a notice of injury and claim, a current Court of Appeals decision (for which, however, a petition for review has been granted by the Wisconsin Supreme Court) holds that no discretionary penalties can be assessed under the Wage Payment statute if, at the time the complaint is filed, the wages at issue have already been paid. If the present case is dismissed because of the plaintiff's failure to comply with statutory notice of injury and claim requirements, no penalties would be available to plaintiffs under this Court of Appeals decision, assuming it is upheld by the Supreme Court, because the Board made the full retroactive payments at issue within a month after filing the present complaint. Summary judgment motions are due December 15, 2003, but it is likely that the plaintiff will request dismissal of this suit prior to or shortly after that date based upon ongoing discussions between the parties.

Grindrod v. MBSD, Spence Korte, Howard Fuller, Barbara Horton, Robert Jasna, Alan Brown, USDC Case No. Case No. 01-C-1198. Ms. Grindrod seeks to bring claims under Title VII of the Civil Rights Act of 1964, *as amended*, 42 U.S.C. Sec. 1983 and 42 U.S.C. §1981. She brings claims against the named defendants in both their individual and official capacities. She claims that she has suffered reverse discrimination by not being selected as an Assistant Principal at MPS; Ms. Grindrod is Caucasian. She claims that the system of recruitment and placement of Assistant Principals is unconstitutional. She also claims that MPS has a pattern or practice of placing Assistant Principals based upon race and the race of the student population at the school. Currently, several motions are pending; the Court has scheduled a trial date of January 12, 2003. If successful on her claim at trial, Ms. Grindrod would be eligible to receive in judgment: back pay, compensatory damages, front pay (or instatement), punitive damages (regarding the individual capacity claims), and attorney's fees.

James Holzbauer, et al. v. Safway Steel Products, Inc. Milwaukee County Circuit Court Case No. 02-CV-003877. This is a personal injury lawsuit involving a painter employed by the Milwaukee Public Schools who fell approximately 15 feet from a scaffolding, seriously injuring his knee. Holzbauer was part of a painting crew involved in work at the Sherman Arts Elementary School in March 2001. In order to paint the auditorium at that school, MPS rented scaffolding from Safway Steel Products, Inc. Safway contends that pursuant to the rental agreement, MPS agreed to indemnify Safway for any and all damages suffered by Holzbauer, including any damages caused by Safway's negligence. Such an agreement allows Safway to circumvent the usual exclusive remedy protection that would be afforded to an employer under Wisconsin law and that would, in this case, have meant that Safway could not make any claim for contribution or indemnification against an employer like MPS. MPS has vigorously contested the scope and validity of the contract and the matter is now being briefed and is set to be decided by the presiding judge at a hearing on January 12, 2004. MPS has paid approximately \$460,000 in medical and other expenses relating to Holzbauer's injury, and if Safway prevails on its motion, MPS would not only be unable to obtain reimbursement from Safway for these amounts, but would also have to pay the pain and suffering and attorneys fees relating to the plaintiff's claim against Safway and the defense of Safway. Those amounts would exceed \$1,000,000, perhaps even after a discounting for Holzbauer's contributory negligence.

With regard to other pending or threatened litigation and unasserted claims, it is the opinion of the City Attorney that such litigation and claims will not be finally determined so as to result in individually or in the aggregate in a final judgment against Milwaukee Public Schools which would materially affect its financial position or its results of operations.

This Page Has Been Intentionally Left Blank

APPENDIX D

MILWAUKEE PUBLIC SCHOOLS

Basic Financial Statements

Year Ended June 30, 2002 and Independent Auditors' Report

**MILWAUKEE PUBLIC SCHOOLS
FINANCIAL STATEMENTS
For the Year Ended June 30, 2002
(Excerpts from Comprehensive Annual Financial Report)**

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	D-3
MANAGEMENT'S DISCUSSION AND ANALYSIS	D-5
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Assets	D-11
Statement of Activities	D-12
Fund Financial Statements:	
Balance Sheet-Governmental Funds	D-13
Reconciliation of the Governmental Funds Balance Sheet	
to the Statement of Net Assets.....	D-14
Statement of Revenues, Expenditures and Changes in Fund Balances	
-Governmental Funds	D-15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance-	
Governmental Funds to Statement of Activities	D-16
Statement of Fiduciary Net Assets	D-17
Statement of Changes in Fiduciary Net Assets	D-18
Notes to Basic Financial Statements	D-19
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule For the General Fund	D-39
Schedule of Funding Progress	D-40
Notes to Basic Financial Statement.....	D-41
COMBINING FUND STATEMENTS:	
Combining Balance Sheet-Non Major Funds	D-43
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance	
(Deficit) Non-Major Funds	D-44



777 East Wisconsin Avenue
Milwaukee, WI 53202-5337

Independent Auditors' Report

The Board of Directors of
The Milwaukee Public Schools:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Milwaukee Public Schools (District), as of and for the year ended June 30, 2002, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2002, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note I to the financial statements, the District adopted the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, during the year ended June 30, 2002.

The management's discussion and analysis; budgetary comparison information; and schedules of funding progress on pages 25 through 30; page 59 and page 60, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of

measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 31, 2002 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly' stated in all material respects in relation to the basic financial statements taken as a whole. The information contained in the statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion thereon.

KPMG LLP

October 31, 2002

MILWAUKEE PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2002

INTRODUCTION

This discussion and analysis of Milwaukee Public School's (MPS or District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2002. It should be read in conjunction with the MPS financial statements.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued June 1999; GASB Statement No. 37, *Basic Financial Statement – and Management's Discussion and Analysis – State and Local Governments: Omnibus*; an amendment to GASB Statements No. 21 and No. 34, issued in June 2001; and, in GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, issued in 2001.

FINANCIAL HIGHLIGHTS

- The District's government-wide financial statements show that assets exceeded liabilities by \$358,951,954. Of this amount, \$415,911,456 is invested in capital assets net of related debt, and (\$56,959,502) is unrestricted.
- The District's governmental funds ended the 2002 fiscal year with a surplus of \$40,260,657. This surplus is primarily the result of recognizing bond proceeds for the Neighborhood School Initiative (\$33,300,000) and Qualified Zone Academy Bond program (\$8,590,000) in fiscal year 2002, while the majority of related expenditures will not be incurred until fiscal year 2003.
- Total fund balance for the governmental funds was \$164,304,199 at June 30, 2002. Of this amount, \$15,204,172 was reserved for encumbrances, \$4,404,429 was reserved for inventories, \$15,872,117 was reserved for self-insurance and prepaid expenditures, and \$128,823,481 remains unreserved.
- MPS added \$50,824,883 in long-term debt during the 2002 fiscal year due in large part to the \$33,300,000 bond issue associated with the District's Neighborhood School Initiative, and the \$8,590,000 lease-purchase debt associated with the Qualified Zone Academy Bond program. The District also added \$4,300,000 in American with Disabilities Act loans, \$3,034,883 in TEACH wiring loans, and \$1,600,000 for the Financial and Student Tracking System.

OVERVIEW OF THE FINANCIAL STATEMENTS

Below is an outline of the remaining sections of this annual report in the order in which they are presented. Following the outline is a brief description of each section.

- 1. Management Discussion and Analysis** (this section)
- 2. Basic Financial Statements**
 - Government-Wide Financial Statements
 - Statement of Net Assets
 - Statement of Activities
 - Fund Financial Statements
 - Government Funds
 - Fiduciary Funds
 - Notes to Financial Statements
- 3. Required Supplementary Information (RSI)**
 - Budget-to-Actual Comparison
 - Employee pension plan liabilities, current and past service
- 4. Combining Statements and Other Supplementary Information**
- 5. Statistical Tables**

The **Management Discussion and Analysis** section discusses the financial performance of MPS during the year ending June 30, 2002. It includes an overview of the financial statements of the District and a report on the budgetary highlights.

The **Basic Financial Statements** section includes both *Government-Wide* and *Fund Financial Statements*. Government-wide statements report information about MPS as a whole, using accounting methods similar to those used by private sector companies. Two government-wide statements are presented. The **Statement of Net Assets** includes all of the District's assets and liabilities of the governmental funds. The District does not have any proprietary funds and the fiduciary funds are not included in the Statement of Net Assets. The **Statement of Activities** includes all revenues and expenses of the District, irrespective of when cash is actually received or paid out. The intent of these government-wide statements is to present a snapshot of the District's *net assets*, and to provide an explanation of material changes that occurred since the prior year. Net assets – the difference between assets and liabilities – is one way to measure the District's financial strength.

The *Fund Statements* provide detailed information about the District's significant *funds*, rather than MPS as a whole. A *fund* is an accounting entity with a self-balancing set of accounts for recording assets, liabilities, revenues and expenses. Funds are created to carry on specific activities or attain certain objectives in accordance with special regulations or limitations. There are three types of funds: governmental, proprietary, and fiduciary. MPS does not have any proprietary funds. Table 1 summarizes various features of each of these funds.

Table 1

Major Features of MPS' Government-Wide and Fund Financial Statements

	Government-Wide Statements	Fund Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire MPS entity (not including fiduciary funds)	Activities that are not proprietary or fiduciary; e.g. school operations, capital projects, and debt service	Activities where MPS acts as trustee or agent for another; e.g. employee retirement plans
Required financial statements	<ul style="list-style-type: none"> - Statement of net assets - Statement of activities 	<ul style="list-style-type: none"> - Balance sheet - Statement of revenues, expenditures, and changes in fund balance 	<ul style="list-style-type: none"> - Statement of fiduciary net assets - Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resource focus	Modified accrual accounting and current financial resource focus	Accrual accounting and economic resource focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets consumed and liabilities due in the current year, or soon after; no capital assets	All assets and liabilities, both financial and capital, short-term and long-term
Type of inflow/outflow information	All revenues and expenses occurring during the year, regardless when cash is received or paid	Revenues when cash is received by year-end, or soon after; expenditures when goods and services have been received and payment is due by year-end, or soon after	All revenues and expenses occurring during the year, regardless when cash is received or paid

Governmental Funds - Most of the District's basic services are included in governmental funds, which focus on 1) cash and other financial assets that can readily be converted to cash flow and, 2) the balances remaining at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or less financial resources to finance MPS programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided that explains the relationship between them.

Fiduciary Funds – MPS is the trustee, or fiduciary, for its employees' pension plans. The District is also responsible for other assets that – because of a trust arrangement – can be used only for the trust beneficiaries. MPS is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These activities are excluded from the government-wide statements because MPS cannot use these assets to finance its operations.

Required Supplementary Information (RSI) includes a budget-to-actual comparison that provides readers with information about the accuracy with which management was able to project the District's revenue and expenditure categories. In addition, RSI includes information concerning MPS' employee pension plan costs. Two pension related schedules are included. One schedule shows the District's progress toward funding its *past* service liability. The other is a schedule of employer contributions that focuses on payment of *current* pension fund costs.

Combining Statements and Other Supplementary Information provides the reader with a more detailed breakdown of the data found previously in the Fund Financial Statements.

Statistical Tables are found in the last section of the comprehensive annual financial report. These tables provide supplementary data that can be used to analyze the District's success in attaining its economic and educational goals. These tables include a ten-year history of revenues, expenditures, and cost per pupil. There is also historical information regarding assessed value, tax rates, enrollment, school buildings, and instructional staff.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

This is the first year MPS is providing government-wide financial statements using the full accrual basis of accounting; therefore, a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

Statement of Net Assets

MPS ended its fiscal year with net assets of \$359.0 million, of which \$415.9 million was invested in capital assets (net of debt) and \$(56.9) million was unrestricted.

Table 2
Milwaukee Public Schools
Condensed Schedule of Net Assets
(in thousands)

	<u>Government-wide Activities</u>
Current Assets	\$180,009
Noncurrent Assets (net)	<u>483,212</u>
Total Assets	663,221
Current Liabilities	65,285
Noncurrent Liabilities	<u>238,984</u>
Total Liabilities	304,269
Net Assets	
Invested in capital assets, net of related debt	415,911
Unrestricted	<u>(56,959)</u>
Total Net Assets	<u>\$358,952</u>

Statement of Activities

On a government-wide basis the District ended the fiscal year with an increase in net assets.

Table 3
Milwaukee Public Schools
Schedule of Activities
(in thousands)
Government-wide Activities

Program Revenues:	
Charges for Services	\$ 9,011
Operating Grants and Contributions	164,573
Capital Grants and Contributions	36,967
Total Program Revenues	<u>210,551</u>
General Revenues:	
Property Taxes	175,075
Federal and State Aid	647,951
Interest and Investment Earnings	858
Total General Revenues	<u>823,884</u>
Total Revenues	<u>1,034,435</u>
Expenses:	
Instruction	589,461
Community Services	18,606
Pupil and Staff Services	106,353
General Administration	108,171
Business Services	154,804
School Nutrition	28,672
Interest on Long-Term Debt	1,374
Other	480
Total Expenses	<u>1,007,921</u>
Increase in Net Assets	<u>\$ 26,514</u>

Capital Assets

At June 30, 2002, MPS had \$733.8 million invested in capital assets including land, buildings, furniture and equipment, and software. This amount represents a net increase of \$45.2 million, or 6.6%, from the previous year. The increase came primarily in the area of construction in progress.

Table 4
Milwaukee Public Schools
Change in Capital Assets

<u>Governmental Activities:</u>	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets:				
Land	\$29,151,349	-	-	\$ 29,151,349
Construction in progress	94,264,525	\$ 44,988,566	(58,710,134)	80,542,957
Buildings	522,787,829	58,710,134	-	581,497,963
Furniture and equipment	30,813,344	1,479,223	(6,596,920)	25,695,647
Software	<u>11,504,055</u>	<u>5,404,748</u>	<u>-</u>	<u>16,908,803</u>
Total Capital Assets	688,521,102	110,582,671	(65,307,054)	733,796,719
Accumulated depreciation	<u>(288,429,572)</u>	<u>(13,100,711)</u>	<u>6,596,920</u>	<u>(294,933,363)</u>
Totals	<u>\$400,091,530</u>	<u>\$ 97,481,960</u>	<u>\$(58,710,134)</u>	<u>\$438,863,356</u>

Long-Term Obligations

At June 30, 2002, long-term obligations were \$244.6 million. This amount represents a net increase of \$52 million over the previous year. The increase is primarily the result of debt issues associated with the Neighborhood School Initiative and the Qualified Zone Academy Bond program.

Table 5
Milwaukee Public Schools
Change in Long-Term Debt and Capital Lease Obligations

<u>Government Activities</u> <u>(thousands)</u>	<u>July 1, 2001</u>	<u>Issuances</u>	<u>Retirements</u>	<u>June 30, 2002</u>
State of Wisconsin Trust Fund Loans	\$ 7,146	-	\$1,632	\$ 5,514
Americans with Disabilities Act Loans	4,008	\$ 4,300	406	7,902
EPA – Asbestos Abatement Note	77	-	77	-
TEACH Loan	1,323	3,035	266	4,092
Neighborhood School Initiative Bond	-	33,300	-	33,300
Qualified Zone Academy Bond	-	8,590	-	8,590
Financial and Student Tracking Note	-	<u>1,600</u>	-	<u>1,600</u>
Total	12,554	50,825	2,381	60,998
Capitalized Lease Obligations	<u>2,702</u>	-	<u>754</u>	<u>1,948</u>
Total Debt	<u>\$15,256</u>	<u>\$50,825</u>	<u>\$3,135</u>	<u>\$62,946</u>

The Trust Fund Loans and the Americans with Disabilities Act Loans (ADA) were issued for the purpose of bringing all Milwaukee Public Schools into compliance with ADA regulations. This type of borrowing has occurred annually over the last decade and is expected to continue for the foreseeable future.

The TEACH wiring loan program is sponsored by the State of Wisconsin and provides loans to schools and libraries for the purpose of installing the telecommunications wiring infrastructure necessary to provide local area networking and internet connections. This program offers a significant benefit to MPS in that one-half the amount borrowed is immediately forgiven by the State. MPS has entered into two TEACH loan agreements with the State. The first TEACH agreement authorized MPS to borrow up to \$15,000,000. The District borrowed \$9,212,237, leaving \$5,787,763 to lapse. The second TEACH agreement authorizes MPS to borrow up to \$14,360,800. At June 30, 2002 the District had used only \$169,369 of this new authority.

The Neighborhood Schools Initiative debt is part of a \$98.4 million State of Wisconsin sponsored program intended to increase the capacity and improve the quality of Milwaukee's neighborhood schools. The outstanding debt is in the form of revenue bonds issued by the Redevelopment Authority of the City of Milwaukee on behalf of MPS, and is secured through bond insurance and a moral obligation pledge by the State of Wisconsin. The first of an anticipated three tranches was issued in February 2002 in the amount of \$33.3 million. The remainder of the \$98.4 million bonding authority is expected to be financed through two additional tranches in a similar form and amount.

The Qualified Zone Academy Bond (QZAB) debt is in the form of a lease-purchase agreement collateralized by the furniture and equipment purchased with the proceeds. The QZAB program is sponsored by the Internal Revenue Service (IRS) and provides interest-free capital for the purpose of promoting academic programs in partnership with the business community. MPS used \$8.59 million of QZAB funding authority in December 2001 to purchase furniture and equipment for the new Bradley Technology and Trade School. Interest on this debt is paid by the IRS via tax credits to the lender.

The financial and student-tracking debt is being used to fund the purchase and implementation of two new software applications: a financial management system and a student tracking system.

Notes to Financial Statements

The Notes to Financial Statements supplement the basic financial statements by providing detailed descriptions of the District's significant accounting policies, and presenting data that identifies changes that occurred throughout the year.

BUDGETARY HIGHLIGHTS

Annual budgets are prepared on a basis consistent with generally accepted accounting principals for the General, Construction, and Other Governmental Funds. Annual unencumbered appropriations lapse at fiscal year-end.

In May 2001 the MPS Board of School Directors adopted the District's fiscal year 2002 budget (July 1, 2001 – June 30 2002). The adopted budget by necessity used a *projection* of the 2002 student enrollment. In October 2001, the Board amended the budget to take into account the *actual* student enrollment as measured on the third Friday in September 2001 as required by Wisconsin State Statute. The October amendment process is important to MPS in that its two principal revenue sources, state equalization aid and property taxes, are predicated on actual MPS enrollment.

The October amendment process also incorporates all other changes in revenue and expenditure projections that result from having more current information. The adopted budget, as amended, becomes the District's final budget.

In October 2001 the Board approved a revised 2002 fiscal year balanced budget in the amount of \$968,312,227. Including prior year encumbrances and carryover authority, the expenditure budget increased to \$1,001,078,183.

Both revenues and expenditures came in under budget in fiscal year 2002 in part due to a number of categorical programs remaining open at June 30, 2002. As these programs close out, revenues and expenditures will increase.

The expenditure variance is attributable in part to a timing difference. Schools are allowed to carryover expenditure authority to the following fiscal year up to a limit of 1.5% of their budget (3% cumulative). The total amount of expenditure authority committed, encumbered, or carried over at June 30, 2002 was \$9.8 million greater than at June 30, 2001. It is anticipated these carried over amounts will be expended in the 2003 fiscal year.

Next Year's Budget

In October 2002 the MPS Board approved a revised 2003 General Fund budget of \$1,040,449,789. This represents an increase of \$39,371,606 (3.9%) over the revised 2002 General Fund budget. The 2003 budget includes a \$21,892,175 (2.9%) increase in the state-imposed Revenue Limit to \$771,742,606. It also incorporates a wage increase of 2.25% for teachers and administrators. Encumbrances and carryovers are not included in this amount.

REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, parents, students, investors, and creditors with a general overview of MPS' finances and to demonstrate the District's accountability for the funds it receives. If you have questions about this report or need additional financial information, you can contact:

**Milwaukee Public Schools
Department of Finance
5225 West Vliet Street
Milwaukee, WI 53208
Or visit our website at: www.milwaukee.k12.wi.us**

MILWAUKEE PUBLIC SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2002

		Governmental Activities
Assets	<u>Notes</u>	
Current Assets:		
Cash and cash equivalents	2	\$ 116,980,521
Due from other governments	3	42,629,762
Accounts receivable (net)	3	4,476,204
Inventory and prepaid expenses	1	15,922,541
Total current assets		<u>180,009,028</u>
Noncurrent Assets:		
Restricted cash and cash equivalents	2	39,994,595
Deposits for self insurance	1	4,354,005
Capital assets not being depreciated	5	109,694,306
Capital assets being depreciated, net	5	329,169,050
Total noncurrent assets		<u>483,211,956</u>
Total Assets		<u>663,220,984</u>
Liabilities		
Current Liabilities:		
Accounts payable and other current liabilities		56,313,455
Deferred revenue	1	2,974,475
Current portion of long-term obligations	7	5,616,096
Accrued interest payable on long-term liabilities		380,872
Total current liabilities		<u>65,284,898</u>
Non-Current Liabilities:		
Non-current portion of long-term obligations	7	<u>238,984,132</u>
Total Liabilities		<u>304,269,030</u>
Net Assets		
Invested in capital assets, net of related debt		415,911,456
Unrestricted		<u>(56,959,502)</u>
Total Net Assets		<u>\$ 358,951,954</u>

See accompanying notes to basic financial statements.

**MILWAUKEE PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2002**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Total Governmental Activities</u>
Government activities:					
Instruction	\$ 589,461,207	992,481	82,443,894	33,847,928	(472,176,904)
Support services:					
Community services	18,606,289	3,634,145	11,562,944	-	(3,409,200)
Pupil and staff services	106,353,611	-	4,979,715	-	(101,373,896)
General, administration and central services	108,170,630	-	714,331	-	(107,456,299)
Business services	154,803,929	153,322	41,114,899	3,118,872	(110,416,836)
School nutrition services	28,672,131	4,230,650	23,757,262	-	(684,219)
Interest on long-term debt	1,373,719	-	-	-	(1,373,719)
Other	479,600	-	-	-	(479,600)
Total support services	418,459,909	8,018,117	82,129,151	3,118,872	(325,193,769)
Total School District	<u>\$ 1,007,921,116</u>	<u>9,010,598</u>	<u>164,573,045</u>	<u>36,966,800</u>	<u>(797,370,673)</u>
General Revenues:					
Taxes:					
Property taxes levied for general purposes					\$ 166,503,260
Property taxes levied for debt service					2,773,885
Property taxes levied for community services					5,797,660
Federal and State aid not restricted to a specific purpose					
General (Equalization Aid)					542,432,938
Other					105,517,681
Interest and investment earnings					857,961
Total general revenues					<u>823,883,385</u>
Changes in net assets					26,512,712
Net assets - beginning					<u>332,439,242</u>
Net assets - ending					<u>\$ 358,951,954</u>

See accompanying notes to basic financial statements.

**MILWAUKEE PUBLIC SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2002**

	Notes	General	Construction	Non-Major Governmental Funds	Total Governmental Funds
Assets					
Deposits with the City of Milwaukee and other cash	2	\$ 95,568,889	\$ 21,411,632	-	116,980,521
Receivables:					
Due from other governmental units	3	33,974,457	-	8,655,305	42,629,762
Due from other funds	4	11,167,390	30,141,766	6,286,447	47,595,603
Other	3	4,476,204	-	-	4,476,204
Total Receivables		49,618,051	30,141,766	14,941,752	94,701,569
Restricted Cash and Cash equivalents	2	39,994,595	-	-	39,994,595
Inventories	1	3,656,249	-	748,180	4,404,429
Deposits for self insurance	1	4,354,005	-	-	4,354,005
Prepaid expenditures		11,518,112	-	-	11,518,112
Total assets		<u>\$ 204,709,901</u>	<u>\$ 51,553,398</u>	<u>\$ 15,689,932</u>	<u>\$ 271,953,231</u>
Liabilities and Fund Balance					
Liabilities:					
Accounts payable		\$ 9,189,804	\$ 500,431	458,303	10,148,538
Contracts payable		491,329	2,435,476	-	2,926,805
Accrued salaries and wages		15,926,759	-	-	15,926,759
Deferred Revenue	1	2,974,475	-	-	2,974,475
Accrued claims for self-insurance	9	23,862,007	-	-	23,862,007
Accrued pensions payable	10	4,150,417	-	-	4,150,417
Other accrued expenditures		64,428	-	-	64,428
Due to other funds	4	30,141,766	6,286,447	11,167,390	47,595,603
Total liabilities		<u>86,800,985</u>	<u>9,222,354</u>	<u>11,625,693</u>	<u>107,649,032</u>
Fund balance:					
Reserved for:					
Encumbrances		15,204,172	-	-	15,204,172
Inventories		3,656,249	-	748,180	4,404,429
Self insurance deposits and prepaid expenditures		15,872,117	-	-	15,872,117
Unreserved:					
Designated by Board for subsequent year's expenditures	8	63,444,184	-	-	63,444,184
Undesignated		19,732,194	42,331,044	3,316,059	65,379,297
Total fund balance		<u>117,908,916</u>	<u>42,331,044</u>	<u>4,064,239</u>	<u>164,304,199</u>
Total liabilities and fund balance		<u>\$ 204,709,901</u>	<u>\$ 51,553,398</u>	<u>\$ 15,689,932</u>	<u>\$ 271,953,231</u>
See accompanying notes to the basic financial statements.					

MILWAUKEE PUBLIC SCHOOLS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2002

Total fund balances - governmental funds \$ 164,304,199

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in the governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.

Cost of capital assets	733,796,719	
Accumulated depreciation	(294,933,363)	
Net capital assets		438,863,356

Long-term liabilities (including bonds payable) are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds and notes payable	62,946,495	
Accrued bond interest payable	380,872	
Compensated absences (sick leave and vacations)	6,680,603	
Self insurance claims	3,246,203	
Workers' compensation claims	2,375,064	
Life insurance benefits & other long-term liabilities	1,857,598	
Termination benefits payable	166,728,766	
Total long-term debt liabilities		(244,215,601)

Total net assets - government activities	\$ 358,951,954
--	----------------

See accompanying notes to basic financial statements.

MILWAUKEE PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2002

	Notes	General	Construction	Non-Major Governmental Funds	Total Governmental Funds
Revenues					
Property tax levy		\$ 161,632,008	10,328,700	2,773,885	\$ 174,734,593
Lunchroom sales		-	-	4,230,650	4,230,650
Other local sources		9,680,243	329,208	-	10,009,451
State aid:					
Equalization aid		541,388,517	1,044,421	-	542,432,938
Special classes		41,148,872	-	-	41,148,872
Integration		38,830,913	-	-	38,830,913
Other state aid		45,394,469	-	11,172,164	56,566,633
Federal aid:					
Education Consolidation Improvement Act		48,563,189	-	-	48,563,189
School nutrition services		-	-	23,096,314	23,096,314
Erate Refunds		-	3,118,872	-	3,118,872
Intergovernmental aid from the City of Milwaukee	7	-	23,500,000	-	23,500,000
Other federal aid		54,871,879	-	13,329,524	68,201,403
Total revenues		<u>941,510,090</u>	<u>38,321,201</u>	<u>54,602,537</u>	<u>1,034,433,828</u>
Expenditures					
Instructional services:					
Undifferentiated curriculum		355,934,282	-	-	355,934,282
Regular and other curriculum		110,567,911	-	844,408	111,412,319
Special curriculum		93,443,822	-	1,990,080	95,433,902
Total instructional services		<u>559,946,015</u>	<u>-</u>	<u>2,834,488</u>	<u>562,780,503</u>
Community services		18,312,322	-	-	18,312,322
Pupil and staff services		84,849,657	-	21,423,702	106,273,359
General and school building administration		82,821,806	-	-	82,821,806
Business services		150,643,630	38,182,842	-	188,826,472
School nutrition services		-	-	28,602,348	28,602,348
Debt service:					
Principal		753,525	-	2,381,405	3,134,930
Interest		239,368	-	753,490	992,858
Other		53,253,456	-	-	53,253,456
Total expenditures		<u>950,819,779</u>	<u>38,182,842</u>	<u>55,995,433</u>	<u>1,044,998,054</u>
Excess of revenues over (under) expenditures		(9,309,689)	138,359	(1,392,896)	(10,564,226)
Other Financing Sources (Uses)					
Proceeds from City of Milwaukee general obligation notes and bonds	7	-	5,900,000	-	5,900,000
Proceeds from Qualified Zone Academy Bonds	7	-	8,590,000	-	8,590,000
Proceeds from Neighborhood Schools Initiative bonds	7	-	33,300,000	-	33,300,000
Proceeds from Teach Loan	7	-	-	3,034,883	3,034,883
Transfers in (out)	4	(351,168)	-	351,168	-
Total other financing sources (uses)		<u>(351,168)</u>	<u>47,790,000</u>	<u>3,386,051</u>	<u>50,824,883</u>
Net change in fund balances		(9,660,857)	47,928,359	1,993,155	40,260,657
Fund balance (deficit):					
Beginning of year, as restated	1	<u>127,569,773</u>	<u>(5,597,315)</u>	<u>2,071,084</u>	<u>124,043,542</u>
End of year		<u>\$ 117,908,916</u>	<u>\$ 42,331,044</u>	<u>\$ 4,064,239</u>	<u>\$ 164,304,199</u>
See accompanying notes to basic financial statements.					

MILWAUKEE PUBLIC SCHOOLS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENTS OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2002

Net change in fund balances - total governmental funds \$ 40,260,657

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital outlay reported in governmental fund statements

\$ 51,872,537

Depreciation expense reported in the statement of activities

(13,100,711)

Amount by which capital outlays are greater (less) than depreciation in the current period.

38,771,826

Bonds or loans issued in the governmental funds are accounted for as other financing sources. In the government-wide statements they constitute a long-term liability and are not recorded as revenues.

(50,824,883)

Repayment of debt service principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the statement of net assets.

3,134,930

Accrued vacation reported in the statement of activities does not require the use of current financial resources and , therefore, is not reported as expenditures in governmental funds.

(695,100)

Workers' compensation claims reported in the statement of activities do not require the use of current financial resources and , therefore, are not reported as expenditures in governmental funds.

141,492

General insurance claims reported in the statement of activities do not require the use of current financial resources and , therefore, are not reported as expenditures in governmental funds.

601,892

Life insurance benefits reported in the statement of activities do not require the use of current financial resources and , therefore, are not reported as expenditures in governmental funds.

68,333

Termination benefits payable reported in the statement of activities do not require the use of current financial resources and , therefore, are not reported as expenditures in governmental funds.

(4,848,766)

In the governmental funds, interest payments on outstanding debt are reported as an expenditure when paid. In the statement of activities, interest is reported as it accrues.

(97,669)

Change in net assets of governmental activities

\$ 26,512,712

See accompanying notes to basic financial statements.

MILWAUKEE PUBLIC SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2002

	Employee Retirement Funds	Private Purpose Trust	Agency
Assets			
Deposits with City of Milwaukee and other cash	\$ -	\$ 154,838	\$ 4,983,079
Investments	85,501,771	1,223,244	-
Receivables	204,637	-	-
Total assets	<u>85,706,408</u>	<u>1,378,082</u>	<u>4,983,079</u>
Liabilities And Net Assets			
Liabilities:			
Accounts payable	903,750	-	-
Due to student organizations	<u>-</u>	<u>-</u>	<u>4,983,079</u>
Total liabilities	<u>903,750</u>	<u>-</u>	<u>4,983,079</u>
Net Assets			
Held in Trust for:			
Supplemental pension benefits	84,802,658	-	-
Endowments	<u>-</u>	<u>1,378,082</u>	<u>-</u>
Total net assets	<u>\$ 84,802,658</u>	<u>\$ 1,378,082</u>	<u>\$ -</u>

See accompanying notes to the basic financial statements.

**MILWAUKEE PUBLIC SCHOOLS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2002**

	Employee Retirement Funds	Private Purpose Trust
Additions		
Employer contributions	\$ 12,035,044	\$ -
Participants contributions	313,594	-
Private Donations	-	216,311
Interest income	-	71,091
Investment income (loss)	(2,787,535)	-
Total additions	<u>9,561,103</u>	<u>287,402</u>
Deductions		
Scholarships & awards	-	271,975
Support services	10,637,452	-
Total deductions	<u>10,637,452</u>	<u>271,975</u>
Changes in net assets	(1,076,349)	15,427
Net Assets--Beginning	85,879,007	1,362,655
Net Assets--Ending	<u>\$ 84,802,658</u>	<u>\$ 1,378,082</u>

See accompanying notes to basic financial statements.

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Milwaukee Public Schools ("District") have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies used by the District are described below.

Reporting Entity - The District was established on February 3, 1846, and operates under Chapter 119 of the Wisconsin Statutes. The District is the largest school District in Wisconsin. The District, governed by a nine-member elected School Board, provides elementary, secondary, vocational, and special education services through grade 12 to residents of the City of Milwaukee, Wisconsin ("City").

The District receives funding from local, state, and federal government sources and must comply with the concomitant requirements of these funding source entities.

The reporting entity for the District is based upon criteria set forth by GASB Statement No. 14, "The Financial Reporting Entity." Under this pronouncement, the financial reporting entity consists of (a) the primary government which is controlled by a separately elected governing body that is legally separate and is fiscally independent, and (b) organizations for which the primary government is financially accountable. All of the accounts of the District comprise the primary government.

The financial statements of the District are excluded from the City of Milwaukee financial statements because the District operates with a separate governing board that is not under the control of the City of Milwaukee. The City of Milwaukee, however, performs the following services for the District as prescribed under Wisconsin Statutes:

Administers the property tax levy adopted by the School Board and collects and remits the property taxes to the District.

Acts as the Treasurer for the major portion of the District's cash.

Issues debt for the benefit of the District for the purchase of sites and buildings.

Basis of Presentation

Government-wide Statements – The statement of net assets and the statement of activities present financial information about the District as a whole. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements – The fund statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category - governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds; each is displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The District reports the following major governmental funds:

General Fund: The General Fund is the general operating fund of the District. It is comprised of two taxing entities that were established by Wisconsin Statutes and are used to account for all financial revenues and expenditures of the District except those required to be accounted for in other funds or taxing entities.

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2002

Construction Fund: The Construction Fund is used to account for financial resources to be used for the acquisition or construction of capital facilities and the additions to and remodeling of existing buildings. The District has only one activity unit within the Construction Fund for which property taxes are levied to finance various capital expenditures.

Additionally, the District reports the following fund types:

Employee Retirement Funds: The Pension Trust Funds account for the accumulation of resources for pension benefit payments under two early retirement plans maintained by the District for qualified teachers and administrators.

Private-Purpose Trust Funds: The Private-Purpose Trust Funds are:

- a) Donations that are received pursuant to a trust agreement that restricts the use of the donations to the extent of the interest or other earnings of the fund. These trusts are maintained by the District for the purpose of scholarships for students.
- b) Donations that are received pursuant to a trust agreement that restricts the use of the donation to a specified purpose but allows for the principal and interest to be expended. These trusts are maintained by the District to include scholarships, donations toward specified activities within schools, and trusts to support extracurricular programs.

Agency Funds: The Agency Fund account for the accumulation and expenditure of individual school activity funds. The sources of these funds include sales of supplies to students, residuals from fund raising activities, and funds raised by the schools to support field trips or school related activities. The principal at each school is responsible for accounting for all school activity funds and individual schools are required to maintain uniform accounting records.

Measurement Focus and Basis of Accounting – The government-wide and fiduciary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Non-exchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within ninety days after the end of the fiscal year except for property taxes which must be collected within sixty days after year end. Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received. Expenditures are recorded when the fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District may fund certain programs by a combination of specific cost-reimbursement grants, categorical funds, and general revenues. Therefore, when program expenses are incurred, both restricted and unrestricted net assets may be available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

Cash and Cash Equivalents - The District considers cash and cash equivalents to include cash and investments having an original maturity of three months or less. The District does not consider any of the investments of the Employee Retirement Trust Funds to be cash equivalents.

Investments – Investments, including investments in the Supplemental Pension Plans, are reported at fair value based on quoted market prices. Short-term investments are reported at cost, which approximates fair value. Investments principally consist of U.S. Government securities, mortgage-backed securities, money market mutual funds and investments in the State

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2002

of Wisconsin Fixed Retirement Investment Trust Fund. The specific identification basis is used in the determination of realized gains and losses on sales of securities excluding the investment in the State of Wisconsin Fixed Retirement Investment Trust Fund. Purchases and sales of securities are recorded on a trade date basis. Net investment income in the State of Wisconsin Fixed Retirement Investment Trust Fund consists of realized and unrealized gains and losses and investment income.

Inventories - Inventories are valued at average cost. Inventories in the governmental fund types are recorded as expenditures when consumed rather than when purchased. Donated United States Department of Agriculture (USDA) commodities are recorded as revenues and assets in School Nutrition Services at the fair value when originally donated by the USDA. When used by the schools, the commodities are expensed and the related assets are reduced.

The reserve for inventories on the balance sheet of the governmental funds is equal to the amount of inventories to indicate that a portion of the fund balance is not available for future expenditure.

Capital Assets - Capital assets are reported at actual cost or estimated costs. Donated assets are reported at the estimated fair market value at the time received. Capital assets are depreciated using the straight-line method over their estimated lives. Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets reported in the government-wide statements are as follows:

	Capitalization <u>Threshold</u>	Estimated <u>Useful Life</u>
Buildings	\$5,000	50 years
Furniture & equipment	\$5,000	5-20 years
Vehicles	\$5,000	5-15 years
Computers and related equipment	\$5,000	5 years
Major computer/software projects	\$50,000	7 years

Property Taxes – The aggregate amount of property taxes to be levied for school purposes is determined according to provisions of Chapter 120 of the Wisconsin Statutes. Property taxes for the District are adopted by the Board by early November and are certified to the City of Milwaukee for levy and collection.

The District's property taxes are levied annually prior to December 31, are administered by the City of Milwaukee for the District based on the assessed (taxable) values as of January 1 of that calendar year, and are recognized as District revenue in the fiscal year they are levied. The levy becomes a lien against property on January 1. The taxes are due January 31, but may be paid in 10 monthly installments to the City of Milwaukee from January through October. All unpaid taxes as of June 30 are purchased by the City of Milwaukee.

Deferred Revenue - Governmental funds deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Deferred revenues include amounts received from grants that have not yet been earned.

Compensated Absences - District employees are granted vacation, compensatory time, and sick leave benefits in varying amounts in accordance with the provisions of union contracts and District policies. In the event of retirement, death, or resignation of an employee, the District is obligated to pay for all unused vacation days. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Sick leave benefits are available for subsequent use and, except in limited situations, do not vest. The value of unused sick leave benefits has not been determined and the expenditures for such benefits are not recognized until they are used. Accordingly, no provision is made in the financial statements for accumulated sick leave benefits.

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2002

Insurance Deposits - The District has recorded deposits in the General Fund for self-funded health insurance and current life insurance obligations and a reserve of fund balance aggregating \$4,354,005 at June 30, 2002, to provide for payment of future claims.

Net Assets – In the government-wide financial statements, equity is displayed in three components as follows:

- a. *Invested in Capital, Net of Related Debt* – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. *Restricted* – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. The District has no restricted net assets at June 30, 2002.
- c. *Unrestricted* – This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Balance Reservations and Designations – In the fund financial statements, the District classifies its fund balance as follows:

- a. Reserved fund balance indicates the portion of fund balance that has been legally segregated for specific purposes.
- b. Unreserved - designated fund balance indicates the portion of fund balance that the District has made tentative plans.
- c. Unreserved - undesignated fund balance indicates the portion of fund balance which is available for use in future periods.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses/expenditures for the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements – Effective July 1, 2002, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* and Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*. These Statements establish new financial reporting requirements and significantly change the format and content of the District's financial statements. They require new information and restructure much of the information that the District has presented in the past.

Effective July 1, 2002, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*. This Statement modifies, establishes, and rescinds certain financial statement note disclosures.

These new standards include the presentation of net assets on the statement of net assets, the classification of assets and liabilities as current or noncurrent on the statement of net assets, the definition of operating versus nonoperating activities, and the inclusion of management's discussion and analysis as required supplementary information.

Effective July 1, 2002, the District adopted the provisions of Governmental Accounting Standards Board Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. This Interpretation clarifies that long-term indebtedness, including debt issues, compensated absences and claims and judgements, should be recorded as a fund liability in governmental funds when they mature (i.e. are due); and unmatured liabilities should only be reported as general long-term liabilities in the government-wide statement of net assets.

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2002

Prior to implementation of GASB Interpretation No. 6, the District recorded the entire liability for compensated absences and self-insurance claims in the general fund. As a result of adopting this statement, the compensated absences and self insurance claims liability were reduced by \$5,985,503 and \$3,182,325 and the fund balance was increased by \$9,167,828 in the general fund as of July 1, 2001. A reconciliation of the fund balance of the general fund as of July 1, 2001 is as follows:

Fund balance as previously stated:	\$118,401,945
Accrued Compensated Absences	5,985,503
Self-insurance claims	<u>3,182,325</u>
Fund balance as adjusted	<u>\$127,569,773</u>

2. DEPOSITS AND INVESTMENTS

As required by the Wisconsin Statutes, the City of Milwaukee acts as Treasurer for the Board of School Directors. A major portion of the District's cash is held and controlled by the Treasurer of the City of Milwaukee and is managed and commingled with other City funds. The City of Milwaukee retains all investment income and assumes all investment gains and losses related to the investment of District cash. At June 30, 2002, the aggregate cash balance held by the City Treasurer for the District's governmental fund types and fiduciary fund types were reconciled to the City Treasurer's and Comptroller's records.

The following is a summary of deposits held by the City of Milwaukee and other cash and cash equivalents on June 30, 2002:

	City Treasurer	Other	Total
General Fund	\$ 93,798,762	\$ 41,764,722	\$135,563,484
Construction Fund	21,411,632	-	21,411,632
Fiduciary Fund Types	<u>-</u>	<u>5,157,917</u>	<u>5,157,917</u>
Total	<u>\$115,210,394</u>	<u>\$46,922,639</u>	<u>\$162,133,033</u>

Deposits and Other Cash - At year-end, the District's demand deposit balance (exclusive of funds held and controlled by the Treasurer of the City of Milwaukee) was \$46,922,639 (including a \$20,000 certificate of deposit) and the bank balance was \$22,008,710. Of the bank balance, \$7,082,343 was covered by the Federal Depository Insurance Corporation ("FDIC") and the State of Wisconsin Public Deposit Guarantee Fund and the remainder is collateralized through collateralization agreements with various depository institutions (underlying securities are in street name and are held by the trust departments of these depository institutions).

The \$115,210,394 in funds held and controlled by the Treasurer of the City of Milwaukee are insured by the Federal Depository Insurance Corporation and the Wisconsin Public Deposit Guarantee Fund or are collateralized through collateralization agreements in the name of the City of Milwaukee. Underlying securities for the collateralization agreements are held in the City of Milwaukee's name by the trust departments of various depository institutions.

Investments - The District is authorized by Wisconsin Statutes 66.04(2) and 67.11(2) to invest in the following instruments:

Time deposits

Bonds or securities issued or guaranteed as to principal and interest by the federal government or its agencies

The State of Wisconsin local government pooled investment fund

Bonds or securities of any county, city, drainage District, vocational or technical college, village, town, school District in Wisconsin, local exposition District, local professional baseball park District or University of Wisconsin Hospitals and Clinics Authority

Repurchase agreements

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2002

Any security that matures or that may be tendered for purchase at the option of the holder within not more than seven years of the date on which it was acquired, if that security is rated within established statutory guidelines

No-load securities of open-end registered management investment companies or investment trusts.

The District's investments are categorized in the following manner:

Category 1 - Includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name.

Category 2 - Includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name.

Category 3 - Includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name for the facilitation of trading by the District's investment managers.

FIDUCIARY FUNDS

	Category 3	Carrying Value
Categorized Investments:		
U. S. Treasury Notes	\$ 1,876,291	\$ 1,876,291
U. S. Government Bonds	7,583,344	7,583,344
Mortgage-Backed Securities	6,257,226	6,257,226
Non-Government Obligations	<u>1,059,526</u>	<u>1,059,526</u>
	<u>\$ 16,776,387</u>	16,776,387
Noncategorized Investments:		
Investment in State of Wisconsin Fixed Retirement Investment Trust Fund		49,808,919
Investment in State of Wisconsin Variable Retirement Investment Trust Fund		15,303,006
Money Market Mutual Fund		<u>4,816,703</u>
Total Investments		<u>\$86,705,015</u>

Uncategorized investments are not subject to categorization because they are not securities. The relationship between the District and the investment agent is a direct contractual relationship, and the investments are not supported by a transferable instrument that evidences ownership.

In accordance with the Wisconsin Retirement System and Employees' Retirement System of the City of Milwaukee's investment policies, the District's pension plans invests in mortgage-backed securities. These securities are reported at fair value in the statement of fiduciary net assets and are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to prepayments by mortgages, which may result from a decline in interest rates. For example, if interest rates decline and homeowners refinance mortgages, thereby prepaying the mortgages underlying these securities, the cash flow from interest payments is reduced and the value of these securities declines. Likewise, if homeowners pay on mortgages longer than anticipated, the cash flows are greater and the return on the initial investment would be higher than anticipated. The District's pension plans invests in mortgage-backed securities to diversify the portfolio and to increase the return while minimizing the extent of risk.

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2002

3. RECEIVABLES

Receivables as of year end for the District's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	General	Non-Major Funds	Total
Receivables:			
Accounts	\$4,591,725	-	4,591,725
Intergovernmental – State	33,953,067	5,969,223	39,922,290
Intergovernmental – Federal	21,707	2,686,082	2,707,789
Gross Receivables	38,566,499	8,655,305	47,221,804
Less: Allowance for Uncollectibles	(115,838)	-	(115,838)
Net Total Receivables	<u>\$38,450,661</u>	<u>8,655,305</u>	<u>47,105,966</u>

4. INTERFUND TRANSACTIONS

Interfund borrowings are reflected as "Due from/to Other Funds" on the accompanying financial statements.

The following balances as of June 30, 2002 represent Due to/from balances among all funds:

General Fund:	
Due to Construction	\$(30,141,766)
Due from Non-Major Funds	<u>11,167,390</u>
Total – Due to/from other funds	\$(18,974,376)
Construction Fund:	
Due to Non-Major Funds	\$(6,286,447)
Due from General Fund	<u>30,141,766</u>
Total – Due to/from other funds	\$23,855,319
Non-Major Funds:	
Due to General Fund	\$(11,167,390)
Due from Construction Fund	<u>6,286,447</u>
Total – Due to/from other funds	\$(4,880,943)

Construction project costs accumulated to be billed at a later date
Cumulative net payroll and other operating costs for the Individuals with Disabilities Education Act and nutrition services programs and operations to be reimbursed by federal/state aid.

The Operating Transfer of \$351,168 from the General Fund to the Non-Major funds funded an operating deficit of \$351,168 in the Categorically Aided Programs fund.

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2002

5. CAPITAL ASSETS

Capital Assets activity for the year ended June 30, 2002 was as follows:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$29,151,349	-	-	\$ 29,151,349
Construction in progress	94,264,525	44,988,566	(58,710,134)	80,542,957
Total capital assets not being depreciated	<u>\$123,415,874</u>	<u>44,988,566</u>	<u>(58,710,134)</u>	<u>109,694,306</u>
Capital assets being depreciated:				
Buildings	522,787,829	58,710,134	-	581,497,963
Furniture and equipment	30,813,344	1,479,223	(6,596,920)	25,695,647
Software	11,504,055	5,404,748	-	16,908,803
Total capital assets being depreciated	<u>565,105,228</u>	<u>65,594,105</u>	<u>(6,596,920)</u>	<u>624,102,413</u>
Less accumulated depreciation for:				
Buildings	(262,008,656)	(9,078,576)	-	(271,087,232)
Furniture and equipment	(24,088,332)	(1,606,592)	6,596,920	(19,098,004)
Software	(2,332,584)	(2,415,543)	-	(4,748,127)
Total accumulated depreciation	<u>(288,429,572)</u>	<u>(13,100,711)</u>	<u>6,596,920</u>	<u>(294,933,363)</u>
Total capital assets being depreciated, net	<u>276,675,656</u>	<u>52,493,394</u>	<u>-</u>	<u>329,169,050</u>
Governmental activities capital assets, net	<u>\$400,091,530</u>	<u>\$97,481,960</u>	<u>\$(58,710,134)</u>	<u>\$438,863,356</u>

Depreciation expense was charged to functions/programs of the Milwaukee Public Schools as follows:

Governmental activities:	
Instruction	\$11,040,307
Community Services	12,671
Pupil and Staff Services	171,434
General and School Building	
Administrative	192,102
Business Services	911,129
School Nutrition	20,333
Other	<u>752,735</u>
Total Depreciation	<u>\$13,100,711</u>

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2002

6. SHORT-TERM BORROWINGS

The City of Milwaukee issued short-term revenue anticipation notes on behalf of the District in the amount of \$112,000,000 in September 2001. These notes bear an interest rate of 2.7 to 3.50% and mature in September 2002. The debt was repaid during June 2002 from the District's equalization aid allocations received from the State government.

7. LONG-TERM OBLIGATIONS

The City of Milwaukee school bonds, notes, Wisconsin Trust Fund loans, and capital lease obligations outstanding at June 30, 2002, totaled \$141,385,806. Of this total, \$78,439,311 represents school bonds and notes that will be repaid by the City using the City's property tax levy. As the District does not have an obligation to repay these bonds and notes from its own property tax levy, the debt is not reflected in the District's long-term obligations. The remaining balance of \$62,946,495 represents trust fund loans, capital lease obligations, and promissory notes, the debt service of which is being reimbursed by the District to the City from the District's property tax levy. Since the District does have an obligation to repay this debt under intergovernmental cooperation agreements with the City, this debt is reflected in the District's long-term obligations.

Long-term obligations of the District are as follows:

Type	Original Amount	Balance at July 1, 2001	Additions	Reductions	Balance at June 30, 2002	Amount due in one year
Intergovernmental cooperation agreements with the City of Milwaukee:						
State of Wisconsin Trust Fund Loans:						
4.5% notes, due in annual installments to March, 2004	5,000,000	1,715,347	-	546,830	1,168,517	571,438
5.75% notes, due in annual installments to March, 2005	5,000,000	2,291,191	-	525,730	1,765,461	555,970
5.75% notes, due in annual installments to March, 2006	5,000,000	3,140,150	-	559,901	2,580,249	592,096
American with Disabilities Act Loans:						
4.5%-4.65% variable rate notes, due in annual installments to December, 2007	2,000,000	1,300,000	-	195,000	1,105,000	205,000
3.5%-4.25% note, due in annual installments to December, 2008	605,000	447,700	-	57,475	390,225	57,475
4.75%-5.375% Series O-G.O. Bonds, due in annual installments to June, 2014	300,000	260,000	-	20,000	240,000	20,000
4.75%-5.625% Series R Bonds, due in annual installments to September, 2016	2,000,000	2,000,000	-	133,416	1,866,584	133,416
3.59% Series T Bonds, due in annual installments to September, 2017	3,095,000	-	3,095,000	-	3,095,000	206,492
3.74% Series W Bonds, due in annual installments to September, 2017	1,205,000	-	1,205,000	-	1,205,000	80,446
EPA-Asbestos Abatement Promissory Note, non-interest bearing, due in semiannual installments of \$38,568 to May, 2002	771,369	77,136	-	77,136	-	-
5.0% Teach Loan, due in annual installments to March, 2009	6,922,502	1,322,718	3,034,883	265,917	4,091,684	256,563
3.5%-4.875% NSI-Neighborhood Schools Initiative Bonds, due in annual installments to February, 2021	33,300,000	-	33,300,000	-	33,300,000	-
QZAB-Qualified Zone Anticipated, due in annual installments to December, 2016	8,590,000	-	8,590,000	-	8,590,000	1,076,208

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2002

Type	Original Amount	Balance at July 1, 2001	Additions	Reductions	Balance at June 30, 2002	Amount due in one year
Financial & Student Tracking Systems- 3.74%-6.24% note, due in annual installments to March, 2008	1,600,000	-	1,600,000	-	1,600,000	268,387
Capital Lease Obligations	4,437,000	2,702,300	-	753,525	1,948,775	466,525
Total Intergovernmental cooperation agreement debt		15,256,542	50,824,883	3,134,930	62,946,495	4,490,016
Accrued Compensated Absences		5,985,503	695,100	-	6,680,603	-
Workers' Compensation Claims		5,078,131	2,882,484	3,023,976	4,936,639	681,574
General Insurance Claims		2,052,019	-	601,892	1,450,127	83,925
Life Insurance Benefits		1,640,880	-	68,333	1,572,547	360,581
Pension-related debt – Wisconsin Retirement System		161,880,000	4,848,766	-	166,728,766	
Liability for Other Long-Term Benefits		285,051	-	-	285,051	-
Total Long-term Obligations		<u>\$192,178,126</u>	<u>\$59,251,233</u>	<u>\$6,829,131</u>	<u>\$244,600,228</u>	<u>5,616,096</u>

Aggregate cash flow requirements for the retirement of the intergovernmental cooperation agreement debt (excluding the capital lease obligations) as of June 30, 2002, are as follows:

Fiscal Year Ended June 30	Principal	Interest	Total
2003	\$ 4,292,351	\$ 2,427,165	\$ 6,719,516
2004	4,463,890	2,374,317	6,838,207
2005	4,023,191	2,257,405	6,280,596
2006	3,531,530	2,164,877	5,696,407
2007	2,927,036	2,103,832	5,030,868
2008-2012	11,840,133	8,526,116	20,366,249
2013-2017	14,009,581	6,363,802	20,373,383
2018-2022	<u>15,910,008</u>	<u>2,053,844</u>	<u>17,963,852</u>
Total	<u>\$60,997,720</u>	<u>\$28,271,358</u>	<u>\$89,269,078</u>

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2002

The following is a schedule of the future minimum lease payments under these capital leases, and the present value of the net minimum lease payments at June 30, 2002:

Fiscal Year Ended June 30	Amount
2003	\$ 555,263
2004	540,104
2005	528,318
2006	256,088
2007	250,623
2008-2012	<u>59,914</u>
Total minimum lease payments	2,190,310
Less amount representing interest	<u>(241,535)</u>
Present value of minimum lease payments	<u>\$ 1,948,775</u>

The maximum allowable amount of City of Milwaukee debt (including school debt) outstanding at any time shall not be greater than 5% of the total equalized taxable property in the City of Milwaukee (State Statute Chapter 67.03). State Statute Chapter 119.49 further authorizes referendum-approved bonding in an additional amount equivalent to 2% of the equalized taxable property for school capital purposes. The total equalized taxable property in the City of Milwaukee for calendar year 2002 was \$20,298,387,000, and the 5% debt limit was \$1,014,919,350. No referendum-approved debt is outstanding at June 30, 2002.

8. FUND BALANCE

Designated for Subsequent Year's Expenditures – The unreserved fund balance of the General Fund is \$83,176,378 at June 30, 2002. This unreserved balance includes \$63,444,184 designated to partially fund school operating expenditures during the period July 1 through December 31, 2002.

Based on recent operating experience, management anticipates that approximately \$443,401,151 will be required to fully cover the anticipated School Operations operating expenditures during the period July 1 through December 31, 2002. In addition to the fund balance designated for subsequent year's expenditures, approximately \$295,055,000 of state aids will be used to fund operating expenditures through December 31, 2002.

The Board has established a formula to identify the amount of unreserved fund balance required to fund the six months of the subsequent year's School Operations property tax levy. The purpose of this designation of fund balance is to provide working capital until state aids and other payments from federal agencies are received. The formula established by this action and the application thereof as of June 30, 2002, is as follows:

General Fund unreserved fund balance	\$83,176,378
--------------------------------------	--------------

Amount required to fund six months of the subsequent year's property tax levy: Current year's School Operations tax levy (\$158,610,459) multiplied by a ratio of subsequent year's tax days from July 1 to December 31 (72) to total calendar school year school days (180)	<u>63,444,184</u>
General Fund undesignated fund balance	<u>\$ 19,732,194</u>

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2002

9. RISK MANAGEMENT

The District is exposed to various types of risk of loss including torts; theft of, damage to, or destruction of assets; errors or omissions; job-related illnesses or injuries to employees; natural disasters; and environmental occurrences. Also included are risk of loss associated with providing health, dental and life insurance benefits to employees and retirees.

The District provides health insurance benefits to employees and retirees through two fully-insured health maintenance organizations and through a self-insured comprehensive indemnity/PPO plan. Effective November 1, 2002, Milwaukee Public Schools will have only one health maintenance organization and one dental maintenance organization. The District does not purchase stop-loss insurance for its self-insured comprehensive indemnity/PPO plan. Life insurance benefits are provided for active and retired employees through an insured life insurance program. Life insurance costs that exceed certain rates are funded by the District.

The District provides dental insurance benefits through two fully-insured dental maintenance organizations and through a self-insured indemnity plan. The District does not purchase stop-loss insurance for its self-insured dental indemnity plan. The District is fully self-insured for worker's compensation benefits and does not purchase stop-loss insurance.

The District purchases commercial property insurance, auto liability insurance, errors and omissions insurance and excess liability insurance. The District assumes a \$250,000 self-insured retention for any one loss or occurrence under its self-insured general liability program. The District purchases excess liability insurance for its general liability that provides per occurrence and aggregate protection. The District is fully self-insured for environmental related liabilities and purchases no excess environmental liability insurance.

There were no significant changes in the insurance coverage from coverage provided in the prior year for any of the above-described risks. Settled claims from insured losses have not exceeded commercial insurance coverage for each of the past three years.

A liability for claims is reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of recent claim settlement trends including frequency and amount of pay-outs and other economic and social factors. The claim liabilities also include estimated costs for claim administration fees and outside legal and medical assistance costs. The liability for claims and judgments is reported in the General Fund.

Changes in the balance of claim liabilities during the past two years are as follows:

	Year Ended June 30, 2002	Year Ended June 30, 2001
Beginning of Year Liability	\$ 29,046,000	\$ 24,026,000
Current Year Claims and Changes in Estimate	142,255,000	118,661,000
Claim Payments	<u>(140,245,000)</u>	<u>(113,641,000)</u>
End of Year Liability	<u>\$ 31,056,000</u>	<u>\$ 29,046,000</u>

The District has recognized the entire liability for Health and Dental insurance, which totaled \$23,096,687 and \$20,274,970 as of June 30, 2002 and 2001, respectively, in the general fund. The District has also recognized a liability of \$1,126,080 and \$765,945 as of June 30, 2002 and 2001, respectively, in the general fund for other claims that were due as of the respective year end. All other claims liabilities are considered to be general long term liabilities and are recognized in the government wide financial statements.

10. RETIREMENT PLANS

Retirement Plans - The District has two supplemental defined benefit retirement plans covering substantially all certificated employees (mainly teachers, principals, and assistant principals) and administrative classified employees. These plans were established to supplement the pension benefits of the District employees participating in the Wisconsin Retirement System and the Employees' Retirement System of the City of Milwaukee. The District currently contributes to both plans to provide for payment of current service costs and to fund prior service costs generally over thirty years.

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2002

Wisconsin Retirement System - All eligible District employees (certificated employees, principally teachers) participate in the Wisconsin Retirement System (WRS), a cost-sharing multiple-employer defined benefit public employee retirement system (PERS). All permanent certificated employees expected to work over 440 hours a year (teachers) are eligible to participate in the WRS. Covered employees in the general/teacher category are required by statute to contribute 5.2% of their salaries to the plan for calendar year 2002. The District pays all employer and principally (with the exception of some substitute teachers) all employee required contributions to the plan. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

The payroll for the District's employees covered by the WRS for the year ended December 31, 2001, was \$372,223,000; the District's total payroll was \$508,431,000. The total required contribution for the year ended December 31, 2001, was \$40,945,000, which consisted of \$21,589,000, or 5.8% of payroll, from the District and \$19,356,000, or 5.2% of payroll, from the District on behalf of the employees. The amount contributed equaled the required contribution. Total contributions for the years ending December 31, 2000 and 1999 were \$42,889,000 and \$44,782,000, respectively, equal to the required contributions for each year.

Employees who retire at or after age 65 are entitled to receive retirement benefits. Employees may retire at age 55 and receive actuarially reduced benefits. For employees actively enrolled in WRS as of January 1, 2000 or after, retirement benefits are calculated as 1.765% of final average earnings for each year of creditable service and 1.6% for creditable service after December 31, 1999. Final average earnings are the average of the employee's three highest years of earnings. Employees terminating covered employment before becoming eligible for retirement benefits may withdraw their contributions and, by doing so, forfeit all rights to any subsequent benefit. For employees beginning participation on or after January 1, 1990 and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998 are immediately vested. The WRS also provides death and disability benefits for employees. Eligibility for and the amount of all benefits are determined under Chapter 40 of the Wisconsin Statutes.

The WRS issues a publicly available annual financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931.

The WRS uses the "Frozen Initial Liability Actuarial Valuation Method" in establishing employer contribution rates. Under this method the unfunded actuarial accrued liability (pensions-related debt) is affected only by the monthly amortization payments, compounded interest, the added liability created by new employer units, and any liabilities caused by changes in benefit provisions. All actuarial gains and losses arising from the difference between actual and assumed experience are reflected in the determination of the normal cost. Employers' pension-related debt for prior service costs is being amortized over a 40-year period beginning January 1, 1990. Historical trend information showing the WRS's progress in accumulating sufficient assets to pay benefits is presented in the WRS's annual financial report. As of December 31, 2001, pension-related debt for the District was \$166,729,000 or 8.0% of the WRS's total Unfunded Accrued Actuarial Liability for prior service contribution receivable of \$2,078,912,289. This liability was determined in accordance with the provisions of GASB Statement No. 27 regarding pension-related debt. The actuarial methods and assumptions used are unchanged from those used prior to the implementation of GASB Statement No. 27.

Employees' Retirement System of the City of Milwaukee - All eligible District employees (classified employees, principally non-teachers) participate in the Employees' Retirement System of the City of Milwaukee (System), a cost-sharing multiple-employer defined benefit public employee retirement system (PERS). Part-time classified employees (defined by the System as 12-month employees who work less than 1,040 hours per year and 10-month employees who work less than 760 hours per year) who are eligible under adopted rules and regulations and who have evidenced their intent to join the System and all full-time classified employees (defined by the System as employees who work 2,080 hours a year for non-teachers and 1,520 hours for 10-month school year teachers) are eligible to participate in the System. Covered employees in the general employee category are required to contribute 5.5% of specified rates of compensation without overtime as agreed upon in past labor negotiations. The District pays all employer and substantially all of the employee required contributions to the System, as stipulated in Chapter 36 of the City of Milwaukee Charter. Due to the Global Pension Settlement, employees eligible for enrollment on or after January 1, 2000, may consent to the Global Settlement and participate in the System combined fund. The consenting employees are required to pay 1.6% of their pensionable earnings for the first eight years from the enrollment date. Also, employees have the option to object to the Global Settlement. Employers are required to

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2002

contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits. The System uses the projected unit credit actuarial cost method to determine employer contribution rates.

The payroll for the District's employees covered by the System for the year ended December 31, 2001, was \$106,066,000; the District's total payroll was \$508,431,000. The total required contribution for the year ended December 31, 2001, was 5,884,000 or 5.5% of covered payroll, from the District on behalf of the employees and equaled the required contribution. Total contributions for the years ending December 31, 2000 and 1999 were \$5,881,000 and \$5,851,000 respectively, equal to the required contributions for each year.

Employees who retire at or after age 60, or who retire at age 55 and have completed 30 years of creditable service, are entitled to receive a retirement benefit. The System provides a service retirement benefit equal to 2% of the member's final average salary times the total number of years of all creditable service, limited to 70% of final average salary. Benefits are fully vested upon completion of four years of service. All active employees as of January 1, 2000 shall receive a one-time 5% bonus payable in a single lump sum upon retirement or death to employee's beneficiary. Active employees enrolled on or after January 1, 2000 who consent to Global Pension Settlement shall make a bi-weekly employee contribution to pay for their cost of living adjustment (COLA) improvements upon completion of the first eight years of employment. The COLA shall be 1.5% annually beginning after the 2nd, 3rd and 4th anniversary after retirement and 2% after the 6th year of the employee's retirement or death. Upon completion of eight years of service, employees terminating covered employment may withdraw their funds and forfeit all rights to any subsequent benefit. The System also provides death and disability benefits for employees. Eligibility for and the amount of all benefits are determined under Chapter 36 of the City of Milwaukee Charter.

The System issues a publicly available annual financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the City of Milwaukee, City Hall, 200 East Wells Street, Room 603, Milwaukee, WI 53202-3567.

Supplemental Retirement Plans

a. Plan Descriptions and Funding Policies

(1) Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan

The Plan, a single-employer pension trust fund, is a contributory, defined benefit pension plan established to provide benefits after early retirement, which will supplement the pension benefits provided by the WRS and the System. The Plan was originally established, effective January 1, 1978, pursuant to a collective bargaining agreement between the District and the Administrators and Supervisors Council, Inc. ("ASC"). Eligibility for and the amount of all benefits is determined under the provisions of the Plan document. The Plan is administered by the District.

In order to participate in the Plan, an employee must be an administrative, supervisory, or professional staff employee of the District who is in the collective bargaining unit represented by the ASC, an exempt employee excluded by the ASC bargaining contract, an employee of the District who is appointed pursuant to Wisconsin Statute Sec.119.32 (3) or any other employee who is identified as a covered participant by the District through an employment contract between such employee and the District. Such employees become participants in the Plan on the later of the effective date of the Plan or the date they become a participant in the WRS. Certain classified members represented by ASC or any exempt employee excluded by the ASC bargaining contract and covered by the system, and certain psychologists who elected to remain in the Plan after June 30, 1980, are also eligible for participation.

Participants are eligible for retirement benefits provided they have made three years of participant contributions and have eight or more years of vesting service. The Plan provides for unreduced benefits at age 60, and for reduced benefits between ages 55 and 60. For participants who retire between ages 60 and 65 under the System or under the WRS, a special supplemental benefit, as defined, shall be paid until the retiree attains age 65. Benefits are paid in the form of monthly payments based on years of service and average monthly compensation for the three highest fiscal years of earnings preceding the date of retirement to a maximum benefit, from this Plan, and either the System, or WRS, of 70% of average monthly compensation. The benefit paid under this Plan for a participant whose benefit is related to the WRS shall be reduced by the amount of the WRS benefit paid. Wisconsin Act 11 directly affects the Plan by decreasing the benefits paid and increasing the funded status of the Plan for which the

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2002

Administration is in the midst of bargaining the impact with the union. This impact would customarily be recognized as a one-time gain and amortized over a nine-year period until the collective bargaining impact is finalized. The actuarial value for fiscal year 2002 was finalized with recognition of the impact of Wisconsin Act 11 and the total actuarial gain determined by the Plan's actuary was \$6,326,664 of which a \$937,750 gain was allocated in fiscal year 2002. In the meantime, benefits continue to be paid by the Plan and adjusted (reduced) to reflect Wisconsin Act 11.

The Plan also provided for disability benefits to vested participants if employment is terminated between ages 55 and 65 by reason of total and permanent disability, as approved by the WRS. Upon the death of an active participant who is not eligible for any other form of benefit under the Plan, a lump-sum death benefit of the balance of the participant's employee contribution account, including interest, is provided to the participant's beneficiary. Classified employees are not covered by this provision of the Plan.

The District maintains a separate "Member Contribution Account" for each participant. Annually, as of June 30, the portion of investment income of the fund attributable to the participants' contribution is credited to the respective member contribution accounts. If a participant leaves covered employment or dies, accumulated employee contributions, plus related investment earnings, are refunded to the employee or designated beneficiary. Classified employees are not required to make member contributions under the Plan.

Participant contributions are funded by payroll deductions, which cover 20% of the Plan cost, as specified in the collective bargaining agreement. The District is required to fund the remaining 80% of the actuarially determined contribution requirement.

The Plan issues a publicly available annual financial report that includes financial statements and required supplementary information for the Plan. That report can be obtained by writing the Milwaukee Public Schools, Department of Insurance and Risk Management, 5225 West Vliet Street, Milwaukee, WI 53208-2698.

(2) Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers

The Plan, a single-employer pension trust fund, is a defined benefit pension plan established to provide benefits after early retirement, which will supplement the pension benefits provided by the WRS. The Plan was originally established, effective July 1, 1982, pursuant to a collective bargaining agreement between the District and the Milwaukee Teachers' Education Association ("MTEA"). Eligibility for and the amount of all benefits are determined under the provisions of the Plan document. The Plan is administered by the District.

To be eligible for participation, an employee must be a teacher of the District who is in the collective bargaining unit represented by the MTEA and who is participating as an active employee in the WRS. Such employees shall become participants in the Plan on the later of the effective date of the Plan or the date they become a participant in the WRS.

The Plan provides for reduced early retirement benefits to participants who are eligible and commence their WRS benefits after age 55 and prior to age 62 and provides optional early retirement benefits if they commence WRS benefits after age 62 but prior to age 65. Benefits are paid in the form of monthly payments based on years of service, and defined average monthly compensation for the three fiscal years of highest earnings preceding the date of retirement. Effective July 1, 1998 a new 15 year vesting provision and years of creditable service provision applies to new participants and re-hired former participants to the Plan.

The Plan also provides for disability benefits for vested participants of the Plan.

The Plan is a noncontributory plan. Therefore, the District is required to fund 100% of the actuarially determined contribution requirement.

The Plan issues a publicly available annual financial report that includes financial statements and required supplementary information for the Plan. That report can be obtained by writing the Milwaukee Public Schools, Department of Insurance and Risk Management, 5225 West Vliet Street, Milwaukee, WI 53208-2698.

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2002

b. Annual Pension Costs and Actuarial Assumptions Used

The District's annual pension costs for the year ended June 30, 2002 and related actuarial assumptions used for the current year and related information for each Plan is as follows:

	Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan	Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers	Total
Contribution rates as a percentage of payroll:			
District	2.44%	3.09%	
Plan participants	.61	-	
Annual required contribution	\$1,248,752	\$9,144,027	\$10,392,779
Interest on net pension obligation	0	0	0
Adjustment to annual required contribution	<u>0</u>	<u>0</u>	<u>0</u>
Annual pension cost	1,248,752	9,144,027	10,392,779
Contributions made	<u>1,248,752</u>	<u>9,144,027</u>	<u>10,392,779</u>
Increase (decrease) in net pension obligation	<u>0</u>	<u>0</u>	<u>0</u>
Net pension obligation, beginning of the year	<u>0</u>	<u>0</u>	<u>0</u>
Net pension obligation, end of the year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2002

	Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan	Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers
Actuarial valuation date	7/1/01	7/1/01
Actuarial cost method	Projected Unit Credit	Entry Age Normal
Amortization method	Level amortization over average expected future working lifetime of active participants	Level dollar amount over 30 years
Remaining amortization period	Varies, depending upon date of base creation. Newly established bases are amortized over a closed nine-year period.	Varies, depending upon date of base creation. New bases established are amortized over a closed 30 years.
Asset valuation method	Five-year smoothed market value for assets other than dedicated bond portfolios. Dedicated bond portfolios are valued as discounted cash flows.	Five-year smoothed market value for assets other than dedicated bond portfolios. Dedicated bond portfolios are valued as discounted cash flows.
Actuarial assumptions:		
Investment rate of return	8.0%	8.0%
Projected salary increases:		
Certificated Participants	Participant's pay level at "transition" is assumed to increase by the regular pay scale of 1.8% (inflation rate) plus an additional merit raise of 4.5% for each of the next six years. "Age at transition" is the assumed age at which a participant enters the ASC union. This assumed age is age at hire plus six years of service.	The assumed compensation increase (including inflation) for each participant is 3% per annum.
Classified Participants	4.0%	

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2002

c. Three-Year Trend Information

The following tables of information are provided to assist users in assessing each Plan's progress in accumulating sufficient assets to pay benefits when due.

Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan

Fiscal Year Beginning July 1	Annual Pension Cost	% of Annual Pension Cost Contributed	Net Pension Obligation
2001	\$1,248,752	100%	\$0
2000	1,722,442	100	0
1999	1,796,826	100	0

Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers

Fiscal Year Beginning July 1	Annual Pension Cost	% of Annual Pension Cost Contributed	Net Pension Obligation
2001	\$9,144,027	100%	\$0
2000	8,673,730	100	0
1999	8,711,130	100	0

The District is currently in collective bargaining negotiations, the results of which could have an impact as to whether benefits for accrued covered service for certain eligible employees is paid from either the Milwaukee Board of School Directors Early Retirement Supplemental and Benefit Improvement Plan (ASC Plan) or the Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers (Teachers Plan). This pertains to covered employees under the ASC Plan covering certificated administrators who have prior Milwaukee Public Schools teaching service and are also eligible to receive a benefit from the Teachers Plan. The impact of this is not quantifiable at this point.

11. POST-RETIREMENT LIFE AND HEALTH CARE INSURANCE BENEFITS

All post-retirement benefits are provided by the District in accordance with union contracts. District employees who take an immediate annuity at age 55 or over, with 15 or more years of service, may retain full life insurance coverage by paying the premium for such coverage until age 65. Employees taking an immediate annuity at age 55 or over, with 30 or more years of service, continue in the group life insurance program with the same coverage and with the District paying the premium in accordance with the union contract under which the employee retired. For retirees who have attained age 65 the life insurance coverage is reduced by 25% of the original coverage for each year following their 65th birthday. Coverage cannot be reduced below 25% of the original coverage. The original coverage is equal to the employee's annual earnings raised to the next even thousand dollars.

Health insurance is available on a self-paid basis to retired employees who retire at age 55 or older, with 15 years of service by paying the premium for such coverage. In the event such employees have 70% of their maximum sick leave accumulation balance at the time of retirement, the District will pay an amount towards the health insurance premium equal to the premium for that employee at the time of retirement. Any increases in premium beyond the amount of the premium at the employee's retirement is paid by the retiree. The District's costs for retiree health insurance is recorded in current operating expenditures as paid. The District has available a self-insured indemnity/PPO health plan and two fully-insured health maintenance organizations (as of 11/1/02 there will be one fully-insured health maintenance organization). These plans are supplemental to Medicare for those retirees eligible for Medicare insurance.

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2002

Expenditures for post-retirement life and health care insurance benefits are financed on a pay-as-you-go basis and aggregated approximately \$20,320,000 for the year ended June 30, 2002. Approximately 4,670 participants are currently eligible to receive post-retirement life insurance benefits, and approximately 4,970 participants are eligible to receive post-retirement health care benefits.

For certain employees who paid an employee contribution on or after July 1, 1992, the District will pay an amount towards the health insurance premium equal to the premium less the employee contribution for that employee at the time of retirement.

12. LIMITATION ON DISTRICT REVENUES

Wisconsin statutes limit the amount of revenues that school Districts may derive from general school aids and property taxes unless a higher amount is approved by referendum. This limitation does not apply to revenues needed for the payment of any general obligation debt service (including refinanced debt) authorized by either of the following:

- A resolution of the School Board or by a referendum prior to August 12, 1993.
- A referendum on or after August 12, 1993.

For the fiscal year ended June 30, 2002, the District is below its revenue limitation by approximately \$114,417.

13. COMMITMENTS AND CONTINGENCIES

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant program are subject to audit and adjustment by the grantor agencies. Therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2002 may be impaired. In the opinion of District management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants. Therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

The District leases certain computer equipment with a carrying value of approximately \$4,610,080 from external vendors. The District also leases two facilities under an operating lease that expires in 2012. The lessor obtained financing for the acquisition and renovation of the leased property through the Redevelopment Authority of the City of Milwaukee, and the lease payments being made by the District are equal to the amounts necessary to pay debt service on the lessor's financing. For fiscal year 2002, total operating lease expense of the District was \$7,574,825. The aggregate minimum legal commitments for the five fiscal years subsequent to June 30, 2002 and thereafter for the computers and property are as follows:

Fiscal Year	Amount
2003	\$ 7,700,386
2004	5,774,407
2005	4,376,000
2006	4,376,000
2007	4,379,000
2007-2011	22,388,000
2012-2016	<u>4,028,000</u>
TOTAL	<u>\$53,021,793</u>

The Board is the defendant in litigation involving discrimination, personal injury, employee grievances, and a variety of other matters, each of which are being contested by the Board. The Board and management of the District believe that resolution of these contingencies will not have a material effect on the District's financial position.

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2002

14. SUBSEQUENT EVENTS

In August of 2002, the City of Milwaukee issued short-term revenue anticipation notes on behalf of the District in the amount of \$133,000,000. The Notes are issued for the purpose of financing the District's operations on an interim basis pending receipt of State school aid payments.

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2002

MILWAUKEE PUBLIC SCHOOLS
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2002

	<u>Budgeted Amounts</u>		<u>Actual</u>
	<u>Adopted</u>	<u>Revised</u>	<u>(GAAP Basis)</u>
Revenues			
Property tax levy	\$ 158,263,386	\$ 161,632,008	\$ 161,632,008
Other local sources	4,180,347	6,916,181	9,680,243
State aid:			
Equalization aid	545,600,000	541,388,517	541,388,517
Special classes	40,000,000	40,100,000	41,148,872
Integration	39,600,000	38,830,914	38,830,913
Other state aid	27,124,244	51,708,333	45,394,469
Federal aid:			
Education Consolidation			
Improvement Act	53,700,990	53,991,003	48,563,189
Other federal aid	27,990,886	73,745,271	54,871,879
Total revenues	<u>896,459,853</u>	<u>968,312,227</u>	<u>941,510,090</u>
Expenditures			
Current operating:			
Instructional services:			
Undifferentiated curriculum	373,525,524	413,067,663	355,934,282
Regular and other curriculum	60,424,424	66,192,315	110,567,911
Special curriculum	<u>97,810,828</u>	<u>97,957,805</u>	<u>93,443,822</u>
Total instructional services	531,760,776	577,217,783	559,946,015
Community services	15,040,482	19,557,979	18,312,322
Pupil and staff services	73,227,063	92,107,621	84,849,657
General and school building			
administration	79,647,507	91,850,642	82,821,806
Business services	156,180,842	151,070,573	150,643,630
Debt service	-	-	992,893
Other	<u>65,972,914</u>	<u>69,273,585</u>	<u>53,253,456</u>
Total expenditures	<u>921,829,584</u>	<u>1,001,078,183</u>	<u>950,819,779</u>
Excess of revenues			
over (under) expenditures	<u>\$ (25,369,731)</u>	<u>\$ (32,765,956)</u>	<u>\$ (9,309,689)</u>
Other financing sources (Uses)			
Transfer Out	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (351,168)</u>
Net change in fund balance	(25,369,731)	(32,765,956)	(9,660,857)
Fund balance - beginning	<u>118,401,945</u>	<u>127,569,773</u>	<u>127,569,773</u>
Fund balance - ending	<u>\$ 93,032,214</u>	<u>\$ 94,803,817</u>	<u>\$ 117,908,916</u>

See accompanying independent auditors' report and notes to required supplementary information.

SCHEDULES OF FUNDING PROGRESS

Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Total Unfunded AAL (2) – (1)	(4) Funded Ratio (1) / (2)	(5) Annual Covered Payroll	Unfunded AAL As a Percentage of Covered Payroll (2) – (1) / (5)
7/1/01	\$40,125,187	\$40,280,250	\$ 155,063	99.62%	\$ 41,022,453	00.38%
7/1/00	38,305,613	44,985,363	6,679,750	85.15	40,129,546	16.65
7/1/99	35,691,031	43,412,104	7,721,073	82.21	37,624,625	20.52

Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Total Unfunded AAL (2) – (1)	(4) Funded Ratio (1) / (2)	(5) Annual Covered Payroll	Unfunded AAL As a Percentage of Covered Payroll (2) – (1) / (5)
7/1/01	\$40,148,172	\$115,223,720	\$75,075,548	34.84%	\$295,633,828	25.40%
7/1/00	33,826,809	103,998,229	70,171,420	32.53	298,981,706	23.47
7/1/99	26,714,235	98,257,006	71,542,771	27.19	295,613,587	24.20

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2002

1. BUDGETING

Annual appropriated budgets are adopted for the general, special revenue, and debt service funds by June 30th each year. Budgets are adopted for the Construction Fund on a project-length basis. Budgets are adopted on a modified accrual basis of accounting consistent with accounting principles generally accepted in the United States of America, except for the treatment of encumbrances (see below) and property tax revenues. Property tax revenues are budgeted based on the amount levied.

In accordance with the Wisconsin Department of Public Instruction's reporting requirements, the Board exercises control over budgeted amounts at the function level within the general, special revenue, and debt service funds. The capital projects fund is controlled at the project level. During the year, budgets can be amended by approval of a majority of the members of the Board. There were no supplemental budget appropriations necessary during the year.

As a management practice, the Superintendent or his or her designee may transfer funds between functions at the department, school, or program level subject to the following criteria:

- The transaction does not exceed \$100,000;
- Is not initiated by a Board member;
- Will not effectuate a change in policy;
- Will not create a new area of activity for the District;
- Does not increase authorized staffing levels;
- Does not move monies between statutory funds.

Board policy requires that all annual appropriations lapse at fiscal year end except for the following: excess budgetary authority for capital project funds lapse when a specific project is completed; schools are allowed to carry over appropriations into the following year up to a maximum of 1.5% of the total revised school budget each year up to a total accumulated carryover of 3%; deficits incurred automatically reduce subsequent year's budget appropriations; and, with School Board approval, appropriations for special projects or planned purchases can be carried into the subsequent year.

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2002

Special Revenue Funds

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

TEACH Wisconsin Programs Fund – This fund is used to account for proceeds from state grants which provide funding for advanced and innovative telecommunications-based projects.

Categorically Aided Programs Fund – This fund is used to account for proceeds from federal grants which provide emphasis on social and curriculum needs of special populations within the District.

School Nutrition Services Fund – This fund is used to account for the breakfast and lunch programs operated by the District for students. Revenues are provided through federal and state aids as well as sales at schools.

Debt Service Fund

The debt service fund accounts for the resources accumulated and payments made for principal and interest on long-term obligation debt of the governmental funds.

MILWAUKEE PUBLIC SCHOOLS
COMBINING BALANCE SHEET - NON-MAJOR FUNDS
JUNE 30, 2002

	TEACH Wisconsin Programs	Categorically Aided Programs	School Nutrition Services	Debt Service	Total
Assets					
Receivable due from other governmental units	\$ -	\$ 5,969,223	\$ 2,686,082	\$ -	\$ 8,655,305
Inventories	-	-	748,180	-	748,180
Due from other funds	6,286,447	-	-	-	6,286,447
Total assets	<u>\$ 6,286,447</u>	<u>\$ 5,969,223</u>	<u>\$ 3,434,262</u>	<u>\$ -</u>	<u>\$ 15,689,932</u>
Liabilities And Fund Balance					
Liabilities:					
Accounts payable	\$ -	\$ 445,907	\$ 12,396	\$ -	\$ 458,303
Due to other funds	102,740	5,523,316	5,541,334	-	11,167,390
Total liabilities	<u>102,740</u>	<u>5,969,223</u>	<u>5,553,730</u>	<u>-</u>	<u>11,625,693</u>
Fund balance (deficit):					
Reserved for inventories	-	-	748,180	-	748,180
Unreserved and undesignated	6,183,707	-	(2,867,648)	-	3,316,059
Total fund balance	<u>6,183,707</u>	<u>-</u>	<u>(2,119,468)</u>	<u>-</u>	<u>4,064,239</u>
Total liabilities and fund balance	<u>\$ 6,286,447</u>	<u>\$ 5,969,223</u>	<u>\$ 3,434,262</u>	<u>\$ -</u>	<u>\$ 15,689,932</u>

See accompanying independent auditors' report.

MILWAUKEE PUBLIC SCHOOLS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE (DEFICIT) - NON-MAJOR FUNDS
YEAR ENDED JUNE 30, 2002

	TEACH Wisconsin Programs	Categorically Aided Programs	School Nutrition Services	Debt Service	Total
Revenues					
Property taxes	\$ -	\$ -	\$ -	\$ 2,773,885	\$ 2,773,885
Lunchroom sales	-	-	4,230,650	-	4,230,650
State aid-other	10,511,216	-	660,948	-	11,172,164
Federal aid:					
School nutrition services	-	-	23,096,314	-	23,096,314
Other federal aid	-	13,329,524	-	-	13,329,524
Total revenues	<u>10,511,216</u>	<u>13,329,524</u>	<u>27,987,912</u>	<u>2,773,885</u>	<u>54,602,537</u>
Expenditures					
Current operating:					
Regular and other curriculum	-	844,408	-	-	844,408
Special curriculum	-	1,990,080	-	-	1,990,080
Pupil and staff services	10,577,498	10,846,204	-	-	21,423,702
School nutrition services	-	-	28,602,348	-	28,602,348
Debt service:					
Principal	265,917	-	-	2,115,488	2,381,405
Interest	95,093	-	-	658,397	753,490
Total expenditures	<u>10,938,508</u>	<u>13,680,692</u>	<u>28,602,348</u>	<u>2,773,885</u>	<u>55,995,433</u>
Excess of revenues over (under)					
Expenditures	(427,292)	(351,168)	(614,436)	-	(1,392,896)
Other financing sources:					
Operating transfer in	-	351,168	-	-	351,168
Teach Loan	3,034,883	-	-	-	3,034,883
Total other financing sources	<u>3,034,883</u>	<u>351,168</u>	<u>-</u>	<u>-</u>	<u>3,386,051</u>
Excess of revenues and other financing sources over expenditures	2,607,591	-	(614,436)	-	1,993,155
Fund balance (deficit):					
Beginning of year	<u>3,576,116</u>	<u>-</u>	<u>(1,505,032)</u>	<u>-</u>	<u>2,071,084</u>
End of year	<u>\$ 6,183,707</u>	<u>\$ -</u>	<u>\$(2,119,468)</u>	<u>\$ -</u>	<u>\$ 4,064,239</u>

See accompanying independent auditors' report.

APPENDIX E

DEFINITIONS OF CERTAIN TERMS; SUMMARY OF THE PRINCIPAL BOND DOCUMENTS

DEFINITIONS OF CERTAIN TERMS

“AA’ Financial Commercial Paper Rate” shall mean on any date of determination for any Auction Rate Period:

1. (A) for any Standard Auction Rate Period of 35 days or any Special Auction Rate Period of fewer than 49 days, the interest equivalent of the 30-day rate, and (B) for any Special Auction Rate Period of (1) 49 or more but fewer than 70 days, the interest equivalent of the 60-day rate; (2) 70 or more but fewer than 85 days, the arithmetic average of the interest equivalent of the 60-day and 90-day rates, (3) 85 or more but fewer than 99 days, the interest equivalent of the 90-day rate, (4) 99 or more but fewer than 120 days, the arithmetic average of the interest equivalent of the 90-day and the 120-day rates, (5) 120 or more but fewer than 141 days, the interest equivalent of the 120-day rate; (6) 141 or more but fewer than 162 days, the arithmetic average of the interest equivalent of the 120-day and 180-day rates, and (7) 162 or more but fewer than 183 days, the interest equivalent of the 180-day rate, in each case on commercial paper placed on behalf of entities whose corporate bonds are rated “Aa” by Moody’s or “AA” by S&P or Fitch, or the equivalent of such rating by Moody’s, S&P or Fitch or another rating agency, as made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such date of determination; or

2. if the Federal Reserve Bank of New York does not make available any such rate, then the arithmetic average of such rates, as quoted on a discount basis or otherwise, by the Commercial Paper Dealers to the Auction Agent for the close of business on the Business Day immediately preceding such date of determination;

provided, that if any Commercial Paper Dealer does not quote a commercial paper rate required in order to make the foregoing determinations, the “AA” Financial Commercial Paper Rate shall be determined on the basis of such quotations as may be furnished by a substitute Commercial Paper Dealer or Dealers selected by the Authority. For the purpose of this definition, the “interest equivalent” means the equivalent yield of an interest-bearing security on a 360-day basis or a rate stated on a discount basis (a “discount rate”) for commercial paper of a given number of days maturity shall be equal to the product of (A) 100, times (B) the quotient (rounded upwards to the next higher one-thousandth (0.001) of 1% of ((x) the discount rate (expressed in decimals) divided by (y) the difference between (1) 1.0 and (2) a fraction, the numerator of which shall be the product of the discount rate (expressed in decimals) times the number of days in which such commercial paper matures, and the denominator of which shall be 360).

“Accreted Value” shall mean with respect to any Capital Appreciation Bond, as of any date of calculation, the sum of the Principal Amount thereof and the interest accrued thereon to such date of calculation, compounded from the date of initial issuance at the stated yield to maturity thereof on the Interest Accrual Dates indicated on Schedule I of the Indenture, assuming in any such semiannual period that such Accreted Value increases in equal daily amounts on the basis of a 360-day year comprised of twelve 30-day months.

“Act” shall mean Section 66.1333, Wisconsin Statutes, as amended, including amendments set forth in 2003 Wisconsin Act 43, as it may from time to time be amended.

“Additional Bonds” shall mean the bonds issued or to be issued under the Indenture on a parity with the Bonds in accordance with the Indenture pursuant to the request of the Borrower and the authorization of the Authority.

“Additional Payments” shall mean that portion of Payments so designated and defined in Section 4.3(f) of the Loan Agreement.

“All-Hold Rate” shall mean, on any date of determination, the interest rate per annum equal to 85% of LIBOR on such date; provided that in no event shall the All-Hold Rate be more than the Maximum Auction Rate.

“Annual Service Charges” shall mean the fees and expenses, if authorized, due and owing to the Auction Agent, the Broker-Dealer and the Insurer in accordance with the terms of the Auction Agent Agreement, the Broker-Dealer Agreement and the Insurance Policy, respectively, payable from the Service Account.

“Applicable Auction Rate” shall mean the rate per annum at which interest accrues with respect to the Auction Rate Securities of each Tranche for any Auction Interest Period.

“Auction” shall mean the implementation of the Auction Procedures on an Auction Date.

“Auction Agent Agreement” shall mean the initial Auction Agent Agreement for Auction Rate Securities identified on Schedule I to the Indenture, unless and until a substitute Auction Agent Agreement acceptable to the Broker-Dealer is entered into, after which “Auction Agent Agreement” shall mean such substitute Auction Agent Agreement in each case as from time to time amended or supplemented.

“Auction Agent” shall mean the initial Auction Agent for the Auction Rate Securities identified on Schedule I to the Indenture, unless and until a substitute Auction Agent Agreement, acceptable to the Broker-Dealer, becomes effective, after which “Auction Agent” shall mean the related substitute Auction Agent.

“Auction Agent Fee” shall mean the fee set forth in the applicable Auction Agent Agreement.

“Auction Date” shall mean the Business Day immediately preceding the first day of each Auction Interest Period for each Tranche of Auction Rate Securities, other than:

(a) each Auction Interest Period for each Tranche commencing after the ownership of the Auction Rate Securities is no longer maintained in book-entry form by the Securities Depository, or

(b) each Auction Interest Period commencing after the occurrence and during the continuance of a Payment Default; or

(c) any Auction Interest Period commencing less than two Business Days after the cure or waiver of a Payment Default.

“Auction Documents” shall mean, collectively, the Auction Agent Agreement and each Broker-Dealer Agreement, in each case, as supplemented or amended from time to time.

“Auction Interest Period” shall mean, as to the applicable Auction Rate Securities of a Tranche, each period during which a specific Auction Rate is in effect, as a result of an Auction, for such Tranche of Auction Rate Securities, which Auction Interest Period may be a 7-, 14-, 21-, 28- or 35-day period or such other period as may be designated from time to time by the Authority pursuant to an Auction Period Adjustment for a Tranche of Auction Rate Securities, each Auction Interest Period running from, and including, the Rate Adjustment Date and ending on, and including, the day immediately preceding the next succeeding Rate Adjustment Date, provided that the initial Auction Interest Period, if any, shall be as stated in Schedule I to the Indenture.

“Auction Period Adjustment” shall mean an adjustment to the length of an Auction Interest Period implemented by the Authority pursuant to the Indenture.

“Auction Procedures” shall mean the Auction and Settlement Procedures set forth in the Auction Agent Agreement.

“Auction Rate” shall mean, as to the interest rate with respect to the applicable Tranche of Auction Rate Securities, the rate of interest per annum that results from implementation of the Auction Procedures with respect to such Tranche of Auction Rate Securities, and determined as described in Section 5.03 or 5.04 of the Indenture; provided, however, that the Auction Rate shall not exceed 17% per annum or the Maximum Auction Rate, if lower than 17% per annum.

“Auction Rate Securities” shall mean all Bonds issued in such Mode prior to their Fixed Rate Conversion Date, if any, in any one or more Tranches.

“Auction Rate Period” shall mean the Initial Auction Rate Period and any Subsequent Auction Rate Period, including 7-, 14-, 21-, 28- and 35- day periods, or such other period as may designated from time to time by the Authority with the approval of the Insurer.

“Authority” shall mean the Redevelopment Authority of the City of Milwaukee, and its successors and assigns.

“Authorized Authority Representative” shall mean the person at the time designated by written certificate furnished to the Trustee containing the specimen signature of such person and signed on behalf of the Authority by the Secretary of the Authority, which certificate may also designate one or more alternates for such person.

“Authorized City Representative” shall mean the person at the time designated by written certificate furnished to the Trustee containing the specimen signature of such person and signed on behalf of the City by the Comptroller of the City, which certificate may also designate one or more alternates for such person.

“Authorized Denomination” shall mean (a) as to Bonds issued as Fixed Rate Bonds, \$5,000 principal amount or any integral multiple thereof; (b) as to Bonds issued as Auction Rate Securities, \$25,000 principal amount or any integral multiple thereof; and (c) as to Capital Appreciation Bonds, \$5,000 Maturity Amount or any integral multiple thereof.

“Beneficial Owner” shall mean, (a) as to Auction Rate Securities, a customer of a Broker-Dealer (other than the Authority) who is listed on the records of that Broker-Dealer (or, if applicable, the Auction Agent) as a holder of Auction Rate Securities; and (b) as to all Bonds that are not issued in the form of Auction Rate Securities, the beneficial owner of each such Bond, determined under the rules of DTC.

“Bond Fund” shall mean the special trust fund of the Authority designated as the “Milwaukee Public Schools Bond Fund” created and established under, and to be held and administered by the Trustee as provided in Section 7.01 of the Indenture and, unless the context shall clearly indicate otherwise, shall include the “Interest Account”, the “Principal Account”, the “Redemption Account”, the “Service Account” and the “Surplus Account” created and established herein.

“Bond Insurer” means MBIA Insurance Corporation.

“Bond Proceeds Fund” shall mean the special trust fund of the Authority designated as the “Milwaukee Public Schools Bond Proceeds Fund” created and established under, and to be held and administered by the Trustee as provided in Section 6.01 of the Indenture.

“Bonds” shall mean \$146,569,121.70 aggregate principal amount of Redevelopment Authority of the City of Milwaukee, Wisconsin Taxable Pension Funding Bonds, 2003 Series (Milwaukee Public Schools), to be issued as authorized in Section 2.02 of the Indenture and at any time Outstanding.

“Bond Year” shall mean the twelve-month period ending on April 1 of each year to which reference is made, provided that the first Bond Year shall commence on the Closing Date and shall end on April 1, 2004.

“Borrower” shall mean the Milwaukee Board of School Directors, a body politic organized and existing under Chapter 119 of the Wisconsin Statutes.

“Broker-Dealer” shall mean any broker or dealer (each as defined in the Securities Exchange Act of 1934), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Auction Procedures which is an “Authorized Broker-Dealer” under the Broker-Dealer Agreement, initially, Lehman Brothers Inc. and which:

- (a) is a Securities Depository System Participant (or an affiliate of a Securities Depository System Participant);
- (b) has been appointed as such by the Authority and approved by the Insurer pursuant to Section 5.15 of the Indenture, and
- (c) has entered into a Broker-Dealer Agreement that is in effect on the date of reference.

When used herein at a time when more than one Broker-Dealer is acting under the Indenture, the term “the Broker-Dealer” shall mean, as the context dictates, either all such Broker-Dealers collectively, or only each Broker-Dealer acting with respect to the applicable Auction Rate Securities.

“Broker-Dealer Agreement” shall mean each agreement between the Auction Agent and the applicable Broker-Dealer relating to the Auction Rate Securities pursuant to which the Broker-Dealer agrees to participate in Auctions as set forth in the Auction Procedures, as from time to time amended or supplemented.

“Broker-Dealer Fee” shall mean the fee set forth in the applicable Broker-Dealer Agreement.

“Business Day” shall mean any day other than a Saturday or Sunday or any other day upon which the New York Stock Exchange or banks in the city in which the principal corporate trust office of the Trustee are authorized or obligated to close; provided that, when used in connection with the Auction Date for Auction Rate Securities, the term “Business Day” shall mean any day other than (i) April 14, April 15, December 30, December 31, a Saturday or a Sunday and (ii) any other day upon which the New York Stock Exchange or banks in New York, New York, or in the city in which the principal corporate trust office of the Trustee is located, are authorized or obligated to close.

“Capital Appreciation Bonds” shall mean those Bonds issued in Maturity Amounts of \$5,000 or any integral multiple thereof, which by their terms accrete interest on a compounded basis payable, together with their principal amount, solely at maturity.

“Catastrophic Event” shall mean an unexpected event that interferes with the normal conduct of business, i.e. an event resulting in the suspension of trading on one or more exchanges, or where one or more exchanges and/or banks are authorized to be closed, severe weather, regional power/communication interruption, physical attack and unexpected events of a limited nature that affect the Auction Agent’s and/or Broker Dealers’ ability to conduct an Auction including acts of God; earthquakes; fires; floods; wars; civil or military disturbances; sabotage; epidemics; riots; interruptions, loss or malfunctions of utilities, computer (hardware or

software) or communications service; accidents; labor disputes; terrorist acts; or acts of civil or military authority or governmental actions.

“City” shall mean the City of Milwaukee, Wisconsin, a municipal corporation and political subdivision of the State of Wisconsin.

“Closing Date” shall mean the date on which the Loan Agreement and the MPS Note become legally effective, the same being the date on which the Bonds are paid for by and delivered to the original purchasers thereof.

“Commercial Paper Dealers” shall mean Lehman Commercial Paper Inc., Goldman, Sachs & Co., and Merrill Lynch & Co., or in lieu of any thereof, its affiliates or successors, if such entity is a commercial paper dealer; provided that in the event that any Commercial Paper Dealer should fail to qualify as a commercial paper dealer, the Authority may appoint another organization to serve as a Commercial Paper Dealer in accordance with the Indenture.

“Costs of Issuance” shall mean all items of expense directly or indirectly payable by or reimbursable to the Authority and related to each Series of Bonds, including, but not limited to, costs of preparation and reproduction of documents, costs of rating agencies and costs to provide information required by rating agencies, filing and recording fees, initial fees and charges of the Trustee, initial fees and charges of the Authority, legal fees and charges, fees and disbursements of consultants and professionals, fees and expenses of the underwriter, fees and charges for preparation, execution and safekeeping of the related Series of Bonds, and any other cost, charge or fee in connection with the original execution and delivery of the related Series of Bonds.

“Costs of Issuance Fund” shall mean the Costs of Issuance Fund established in Section 6.02 of the Indenture.

“Date of Interest Accrual” shall mean the first day of any Rate Period for Auction Rate Securities.

“Date of Issuance” shall mean, as to any particular Bond, the date upon which the particular Bond was issued and delivered to the original purchaser thereof.

“DOA” shall mean the Department of Administration of the State of Wisconsin.

“DPI” shall mean the Department of Public Instruction of the State of Wisconsin.

“DPI Agreement” shall mean the Agreement entered into by and among the Authority, the Borrower, DOA, DPI and the Trustee, as the same may be amended or supplemented.

“DTC” shall mean The Depository Trust Company, New York, New York, a Securities Depository for the Bonds and its successors and assigns, or a substitute depository as may be designated pursuant to the Indenture.

“Event of Default” shall mean Event of Default as defined in Section 10.01 of the Indenture.

“Existing Owners” shall mean, with respect to Auction Rate Securities, those registered owners of such Auction Rate Securities as of the day prior to each Auction Date.

“Existing Owners Registry” shall mean, with respect to each Tranche of Auction Rate Securities, the registry of Persons who are Existing Owners of the related Tranche of Auction Rate Securities, maintained by the Auction Agent as provided in the applicable Auction Agent Agreement.

“Financial Newspaper” shall mean The Wall Street Journal or The Bond Buyer, or any other newspaper or journal printed in the English language, publishing financial news and selected by the Trustee, who shall be under no liability by reason of such selection.

“Fiscal Year” shall mean the fiscal year for the Borrower as established from time to time by the Borrower, being at the dated date of the Indenture the period from July 1 in any year to and including the following June 30.

“Fitch” shall mean Fitch Ratings, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns.

“Fixed Rate” shall mean a rate of interest that does not change during a specific term; the opposite of an adjustable or variable interest rate.

“Fixed Rate Bonds” shall mean those Bonds which, by their terms, have been issued in denominations of \$5,000 principal amount or any integral multiple thereof, bear interest at regular Fixed Rates, payable semiannually (except that the first interest period with respect thereto may be less than six months but not more than twelve months following their date of issuance). Fixed Rate Bonds are sometimes referred to in the Indenture as “Current Interest Bonds”.

“Fixed Rate Conversion” shall mean the conversion of the interest rate mode for the Bonds issued as Auction Rate Securities to a Fixed Rate.

“Fixed Rate Conversion Date” shall mean the date upon which a Fixed Rate Conversion occurs.

“GO Notes” shall mean \$21,482,013.50 aggregate principal amount aggregate principal amount of Taxable General Obligation Notes, 2003 Series, to be issued by the City of Milwaukee, Wisconsin, simultaneously with the issuance of the Bonds.

“Government Obligations” shall mean direct obligations of, or obligations the timely payment of the principal of and interest on which is unconditionally guaranteed by, the United States of America.

“Hold Order” shall have the meaning given to such term in the Auction Procedures.

“Indenture” shall mean the Trust Indenture dated as of December 1, 2003 by and between the Authority and Deutsche Bank National Trust Company, Chicago, Illinois, in its capacity as Trustee, as the same may be amended or supplemented.

“Information Services” shall mean Bloomberg Municipal Repository, 100 Business Park Drive, Skillman, New Jersey 08558; DPC Data Inc., One Executive Drive, Fort Lee, New Jersey 07024; FT Interactive Data, Attention: Repository, 100 William Street, New York, New York 10038; and Standard & Poor’s J.J. Kenny Repository, 55 Water Street, 45th Floor, New York 10041; or, in accordance with the then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds as the Authority may designate.

“Initial Auction Rate Period” shall mean with respect to Auction Rate Securities, the period from and including the Date of Issuance on such Auction Rate Securities to but excluding the Initial Interest Payment Date for such Auction Rate Securities.

“Initial Interest Payment Date” with respect to Auction Rate Securities refers to the initial Interest Payment Date for such Auction Rate Securities set forth on Schedule I to the Indenture.

“Initial Swap Agreement” shall mean any interest rate swap or related transaction entered into under an ISDA Master Agreement between the City on behalf of the Borrower and an Initial Swap Provider.

“Initial Swap Provider” shall mean Morgan Stanley Capital Services Inc. and Lehman Brothers Special Financing Inc.

“Insurance and Reimbursement Agreement” shall have the meaning given to such term in the Loan Agreement.

“Insurance Policy” shall mean the policy of municipal bond insurance issued on the Closing Date to secure the payment, when due, of principal and interest on the Bonds or any Series or Tranche thereof.

“Insured Bonds” shall mean those Bonds which are insured as to payments of principal and interest when due by the delivery of a policy of municipal bond insurance simultaneously with the Closing Date.

“Insurer” shall mean the provider of municipal bond insurance for any Series or Tranche of Bonds issued under the Indenture.

“Insurer Bonds” means bonds of the Authority, payment of the principal of and interest on which are insured by a bond insurer.

“Interest Accrual Date” shall mean each date established for the accrual and compounding of interest on Capital Appreciation Bonds, initially as set forth in Schedule I to the Indenture.

“Interest Payment Date” shall mean each date upon which interest is due on the Bonds (excepting Capital Appreciation Bonds), as initially set forth in Schedule I to the Indenture, or, in the case of Auction Rate Securities, Section 5.03 of the Indenture.

“Interest Rate Period” shall mean any designated period during which a Series of Bonds are Outstanding in the form of Auction Rate Securities.

“Investment Securities” shall mean to the extent permitted by the laws of the State, (i) Government Obligations, (ii) general obligation securities of the City of Milwaukee, Wisconsin, rated at least “AA” by any two of the Rating Agencies, (iii) obligations, not exceeding seven years having a long-term rating in one of the top two rating categories by at least two of the Rating Agencies, or a short-term rating in the top rating category by at least two of the Rating Agencies and (iv) money market funds restricted to obligations referred to in clauses (i), (ii) and (iii) above.

“ISIN Number” shall mean the unique number assigned to each Bond traded within the Euroclear System and Clearstream, Luxembourg, from and after the date upon which such trading commences.

“LIBOR” shall mean on any date of determination for any Auction Rate Period:

(i) subject to clause (ii) below, (A) for any Standard Auction Rate Period or any Special Auction Rate period of fewer than 49 days, the offered rate for deposits in U.S. dollars for a one-month period which appears on Telerate Page 3750 at approximately 11:00 a.m., London time, on such date, or if such date is not a London Business Day, then on the next preceding London Business day (the “calculation date”) and (b) for any Special Auction Rate period of (i) 49 or more but fewer than 70 days, such rates for deposits in U.S. dollars for a two-month period; (ii) 70 or more but fewer than 85 days, the arithmetic average of such rates for deposits in U.S. dollars for two- and three-month periods; (iii) 85 or more but fewer than 120 days, such rate for deposits in U.S. dollars for a three-month period; (iv) 120 or more but fewer than 148 days, the arithmetic average of such rates for deposits in U.S. dollars for three- and six-month periods; (v) 148 or more but fewer than 180 days, such rate for deposits in U.S. dollars for a six-month period; (vi) 180 or more but fewer than 225 days, the arithmetic average of such rates for deposits in U.S. dollars for six- and nine-month periods; (vii) 225 or more but fewer than 290 days, such rate for deposits in U.S. dollars for a nine-month period; (viii) 290 or more but fewer than 325 days, the arithmetic average of such rates for deposits in U.S. dollars for nine-month and one-year periods, and (ix) 325 days or more, such rate for deposits in U.S. dollars for a one-year period; or

(ii) if, on any calculation date, no rate appears on Telerate Page 3750 as specified in clause (i) above, the arithmetic average of the offered quotations of four major banks in the London interbank market, selected by the Auction Agent for deposits in U.S. dollars for the respective periods specified in clause (i) above to prime banks in the London interbank market at approximately 11:00 a.m., London time, on such calculation date and in a principal amount of not less than \$1,000,000 that is representative of a single transaction in such market at such time, unless fewer than two

such quotations are provided, in which case, the arithmetic average of the rates quoted at approximately 11:00 a.m., New York time, on the date next preceding such calculation date by three major banks in the City of New York, selected by the Auction Agent, for loans in U.S. dollars to leading European banks in a principal amount of not less than \$1,000,000 that is representative of a single transaction in such market at such time.

“LIBOR Spread” shall mean the percentage of LIBOR established on the Closing Date for the affected Bonds, as provided on Schedule I to the Indenture.

“Loan Agreement” shall mean the Loan Agreement of December 1, 2003 entered into by and among the Authority, the City and the Borrower, as the same may be amended or supplemented.

“Loan Default Event” shall mean a Loan Default Event pursuant to Section 6.1 of the Loan Agreement.

“Loan Payments” shall mean the portion of the Payments required to be paid pursuant to Section 4.3(d) and (e) of the Loan Agreement and the MPS Note.

“London Business Day” shall mean a day that is a Business Day and a day on which dealings in deposits in U.S. dollars are transacted, or with respect to any future date, are expected to be transacted, in the London, U.K., interbank market.

“Maturity Amount” shall mean the Accreted Value of any Capital Appreciation Bond on its maturity date.

“Maximum Auction Rate” shall mean on any date of determination for any Auction Rate Period, 17%, or the maximum rate, if any, established under the laws of the State for obligations of public agencies such as the Authority.

“Minimum Auction Rate” shall mean on any date of determination, the rate per annum equal to 80% of the greater of (a) LIBOR, or (b) the applicable Reference Rate in effect on the applicable Auction Date; provided, however, that in no event shall such Minimum Auction Rate exceed the Maximum Auction Rate.

“Mode” shall mean the principal amount, Authorized Denomination, interest rate and payment structure, including any methodology for the reset thereof, for any Series of Bonds. The Indenture authorizes the issuance of Bonds in the following Modes: Current Interest Bonds, Auction Rate Securities and Capital Appreciation Bonds.

“Moody’s” shall mean Moody’s Investors Service, its successors and their assigns, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally recognized rating agency designated by the Authority.

“MPS Note” shall mean the promissory note of the City on behalf of the Borrower, to be executed by the City and assigned by the Authority to the Trustee to evidence

the obligation of the Borrower to the Authority to repay the loan to be made by the Authority to the Borrower pursuant to the Loan Agreement and to make the Loan Payments specified therein.

“Non-Payment Rate” shall mean for Auction Rate Securities of each Tranche, on any date of determination, 17% per annum, provided that in no event shall the Non-Payment Rate be more than the maximum rate permitted by State law.

“Notice of Cure of Payment Default” shall mean a notice substantially in the form appended to the form of Auction Rate Security in Exhibit B to the Indenture.

“Notice of Payment Default” shall mean a written notice as to a payment default of Auction Rate Securities, in form and substance acceptable to the applicable Auction Agent.

“Opinion of Counsel” shall mean a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the Authority, and acceptable for the Insurer.

“Original Purchaser; Original Purchaser of the Bonds” shall mean the original purchaser of one or more Series of Bonds.

“Outstanding” or “outstanding”, when used with respect to any Bond shall mean, as of any date, any Bond theretofore or thereupon being authenticated and delivered pursuant to the Indenture, except:

- (i) any Bond cancelled by the Trustee or delivered to the Trustee for cancellation at or prior to such date;
- (ii) any Bond in lieu of or in substitution for which another Bond shall have been issued under Sections 3.03, 4.03, 4.04 or 4.05 of the Indenture; and
- (iii) any Bond or portion thereof deemed to have been paid in accordance with Section 13.01 of the Indenture.

“Overdue Rate” shall mean, as to any Auction Rate Securities, on any date of determination and for any Standard Auction Rate Period, the interest rate per annum equal to the Maximum Auction Rate and for any Special Auction Rate Period, the interest rate per annum equal to 265% of LIBOR equal in length to the then-ending Special Auction Rate Period; provided that in no event shall the Overdue Rate exceed the lesser of (1) 17% per annum and (2) the maximum rate on such date permitted by State law for public agencies such as the Authority.

“Owner or Owners” shall mean in reference to any Bond or Bonds means the registered owner thereof, as shown on the registration books maintained by the Trustee in accordance with the Indenture.

“Parity Debt” shall mean obligation(s) issued pursuant to the terms of Section 4.10 of the Loan Agreement.

“Payments” shall mean, collectively, the Loan Payments and the Additional Payments.

“Payment Default” shall mean the default of the Authority, or the Trustee on behalf of the Authority, in the due and punctual payment of (a) any installment of interest on the Bonds or (b) any principal of, premium, if any, or interest on, the Bonds at their maturity (whether on the Stated Maturity Date, prior redemption or otherwise), which default shall continue for a period of two Business Days and which in either case is followed by the failure of the applicable Insurer to make, in accordance with the related Insurance Policy, due and punctual payments to or on behalf of the Owners of the Bonds of such installments or payments described in clause (a) or (b), if so required under such Insurance Policy.

“Pension Funding Plan” shall mean the funding of the obligation of the Borrower to the Wisconsin Retirement System, consisting of unfunded prior service liability obligations in the amount of \$165,505,295.70 and may also include any future unfunded prior service liability obligations.

“Potential Beneficial Owner” shall mean a customer of a Broker-Dealer that is not a Beneficial Owner of Auction Rate Securities but that wishes to purchase Auction Rate Securities, or that is a Beneficial Owner of Auction Rate Securities that wishes to purchase an additional principal amount of Auction Rate Securities.

“Potential Owner” shall mean a Broker-Dealer (or any such other person as may be permitted by the Authority) that is not an Existing Owner or that is an Existing Owner that wishes to become the Existing Owner of an additional principal amount of Auction Rate Securities.

“Principal Amount” shall mean as to any Fixed Rate Bond or Auction Rate Bonds, the principal amount thereof or as to any Capital Appreciation Bond, the Accreted Value thereof as of the most recent compounding date.

“Principal Payment Date” shall mean April 1 in each year, commencing April 1, 2024, and any date that Bonds (or a portion thereof of the principal then redeemed) are redeemed in whole or in part.

“Qualified Swap Agreement” or “Swap Agreement” shall mean either (i) the Initial Swap Agreement or (ii) any ISDA Master Swap Agreement, by and between the City on behalf of the Borrower and a Qualified Swap Provider, (a) that is entered into by the City on behalf of the Borrower with an entity that is a Qualified Swap Provider at the time the arrangement is entered into; (b) which provides that the City shall pay to such entity an amount based on the interest accruing at a Fixed Rate on an amount equal to the notional amount set forth therein, and that such entity shall pay to the City an amount based on the interest accruing at a variable rate computed according to a formula set forth in the Swap Agreement (which need not be the same formula by which the Auction Rate, if applicable, is calculated) on such notional amount or that one shall pay to the other any net amount due under such arrangement, (c) which has been designated in writing to the Trustee by an Authorized City Representative as a Qualified Swap Agreement, and (d) which has been approved by the Insurer.

“Qualified Swap Provider” shall mean either (i) the Initial Swap Providers or (ii) with respect to the counterparty under any other Qualified Swap Agreement meeting the requirements of the definition thereof, a financial institution approved by the Insurer, and (A) the long-term, unsecured and unsubordinated obligations of which are rated at the time of execution of the related Qualified Swap Agreement by two of the following three agencies: Moody’s, S&P or Fitch either directly or by virtue of a guarantee, as A3 by Moody’s or A- by S&P or Fitch.

“Rate Adjustment Date” shall mean with respect to each Tranche of the Auction Rate Securities, the date on which a new Interest Rate becomes effective with respect to such Tranche of Auction Rate Securities, and shall mean the initial Rate Adjustment Date and, thereafter, the first Business Day following each Rate Determination Date (which, until an Auction Period Adjustment, generally is each fifth Wednesday, or the next Business Day if such Wednesday is not a Business Day).

“Rate Determination Date” shall mean, initially, those dates set forth for the Tranches of Auction Rate Securities on Schedule I to the Indenture, and thereafter, the Business Day immediately preceding the first day of each related Auction Interest Period, other than: (i) an Auction Interest Period which commences on a Fixed Rate Conversion Date; (ii) each Auction Interest Period commencing after the ownership of Auction Rate Securities is no longer maintained in Book-Entry Form; (iii) each Auction Interest Period commencing after and during the continuance of a Payment Default; or (iv) an Auction Interest Period commencing less than two Business Days after the cure or waiver of a Payment Default. Notwithstanding the foregoing, the Rate Determination Date for one or more Auction Interest Periods may be changed as described under Section 5.09 of the Indenture.

“Rate Period” shall mean that period commencing on a Date of Interest Accrual and ending on the earlier of the Fixed Rate Conversion Date or the stated maturity date of the affected Auction Rate Security.

“Rate Period Days” shall mean for any Auction Rate Period or Interest Period, the number of days that would constitute such Auction Rate Period or Interest Period but for the application of Section 5.09 of the Indenture.

“Rating Agencies or Rating Agency” shall mean one or all of Moody’s, S&P or Fitch, or, in the event that Moody’s, S&P or Fitch no longer maintains a rating on the Bonds, any other nationally recognized bond rating agency then maintaining a rating on the Bonds, but, in each instance, only so long as Moody’s, S&P, Fitch or another nationally recognized rating agency then maintains a rating on the Bonds, and is acceptable to the Insurer.

“Record Date” shall mean, with respect to (a) Fixed Rate Bonds, the fifteenth day (whether or not such day is a Business Day) of the month immediately preceding each Interest Payment Date; (b) Auction Rate Securities, the second Business Day immediately preceding each Interest Payment Date; or (c) Capital Appreciation Bonds, the fifteenth day (whether or not such day is a Business Day) of the month immediately preceding the maturity thereof.

“Reference Rate” shall mean (i) for a Standard Auction Rate Period or any Special Auction Rate Period of fewer than 180 Rate Period Days, the “AA” Financial

Commercial Paper Rate or LIBOR for such Auction Rate Period, whichever is less; (ii) for an Auction Rate Period of more than 180 Rate Period Days, the Treasury Rate for such Auction Rate Period.

“Regular Interest Payment Date” shall mean those dates identified on Schedule I to the Indenture on which payments of interest on the Auction Rate Securities are due.

“Regular Record Date” shall mean, with respect to Auction Rate Securities, the second Business Day immediately preceding each Interest Payment Date.

“Revenues” shall mean (a) all monies and investment securities in the School Operations Fund established and maintained by the Borrower in accordance with Section 119.46, Wisconsin Statutes, as the same may be amended or renumbered from time to time, or any similar fund or account hereafter established by the Borrower, but only to the extent monies therein have been appropriated by the Milwaukee Board of School Directors for Payments, (b) State Aid, (c) any payments made by the City from the School Operations Fund pursuant to section 4.3(c)(ii) of the Loan Agreement and the second sentence of the first paragraph of section 4.3(d) thereof, (d) earnings on the investments held by the Trustee in the trust funds established under the Indenture, and (e) any other income, revenues and monies delivered by the Authority under the Loan Agreement and the MPS Note. The term “Revenues” shall not include monies received as proceeds for the sale of the Bonds or from the sale of any other bonds, notes or evidences of indebtedness.

“School Operations Fund” shall mean the School Operations Fund established by Section 119.46, Wisconsin Statutes, held by the City on behalf of the Borrower.

“Securities Act” shall mean the Securities Act of 1933, as amended.

“Securities Depository” shall mean: The Depository Trust Company, 55 Water Street, 50th Floor, New York, New York 110041-0099, Fax-(212) 855-7232; or such other addresses and/or such other securities depository as the Authority may designate to the Trustee.

“Sell Order” shall have the meaning given to such term in the Auction Procedures.

“Serial Bonds” shall mean Bonds for which no sinking fund payments are provided.

“Series” shall mean all of the Bonds designated as being within a certain series, as indicated on the inside cover of the Indenture, regardless of variations in maturity date, interest rate (but within the same Mode), redemption and other provisions, and any Bonds thereafter issued in transfer or exchange for such Bonds pursuant to the Indenture.

“Service Account” shall mean that account maintained by the Trustee as provided in Section 7.01 of the Indenture.

“Short-Term School Order Notes” shall mean the Notes of the City issued on behalf of the Borrower in each year pursuant to Section 67.12, Wisconsin Statutes, which are payable from State Aid.

“Special Auction Rate Period” shall mean a Subsequent Auction Rate Period, other than a Standard Auction Rate Period, designated pursuant to Section 5.10 of the Indenture that consists of a specified number of Rate Period Days not fewer than 28 and not more than 1,820 and evenly divisible by seven, subject to adjustment as provided in said Section. Insurer consent is required for any Auction Rate Period which exceeds 35 days.

“S&P” shall mean Standard & Poor’s Ratings Group, its successors and their assigns, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized rating agency designated by the Authority.

“Standard Auction Rate Period” shall mean any Auction Rate Period consisting of 7, 14, 21, 28 or 35 Rate Period Days, or such other period as may be designated from time to time by the Authority with the consent of the Insurer.

“State” shall mean the State of Wisconsin.

“State Aid” shall mean the general school aid payments made by the State to the Borrower pursuant to subchapter II of Chapter 121, Wisconsin Statutes, as the same may be amended or renumbered from time to time, or any other payments made directly or indirectly by the State to the Borrower in partial or full replacement or substitution for the school aid payments now made under subchapter II of Chapter 121, Wisconsin Statutes. The term “State Aid” does not include certain other aids not made under said subchapter II such as intradistrict aid paid by the State to the Borrower under Section 121.85(6)(a), (am) and (ar), Wisconsin Statutes, as the same may be amended or renumbered from time to time.

“Stated Maturity Date” shall mean the date given as the stated maturity date on each Bond.

“Submission Deadline” shall mean 1:00 p.m., New York time, on any Auction Date or such other time on any Auction Date by which Broker-Dealers are required to submit Orders (as defined in Section 5.05(a)(i) of the Indenture) to the Auction Agent, as specified by the Auction Agent from time to time.

“Subsequent Auction Rate Period” shall mean the period from and including the Initial Interest Payment Date for Auction Rate Securities to but excluding the next Regular Interest Payment Date for Auction Rate Securities and each period thereafter from and including one Regular Interest Payment Date to but excluding the next succeeding Regular Interest Payment Date; provided that if any Subsequent Auction Rate Period is a Special Auction Rate Period consisting of more than 91 days, such term shall mean the period commencing on the first day of such Special Auction Rate Period and ending on the last day of the last Interest Period thereof, provided, further, that the Subsequent Auction Rate Period shall normally begin on the respective Interest Payment Date after the end of such Special Auction Rate Period, and the Auction therefor shall normally be held on the preceding Business Day.

“Substitute Commercial Paper Dealer” shall mean Lehman Brothers, Inc., or their affiliates or successors, if such affiliate or successor is a commercial paper dealer, provided that neither such person nor any of its affiliates or successors shall be a Commercial Paper Dealer.

“Sufficient Clearing Bids” shall mean having the meaning set forth in Section 5.05(c)(i)(B)(III) of the Indenture.

“Supplemental Indenture” shall mean any other indenture between the Trustee and the Authority, entered into pursuant to and in compliance with the provisions of Article XII of the Indenture amending or supplementing the provisions of the Indenture as originally executed or as theretofore amended or supplemented.

“Swap Payments” shall mean any of the regularly scheduled periodic payments paid or payable by the City on behalf of the Borrower pursuant to the terms of a Qualified Swap Agreement.

“Swap Receipts” shall mean any of the regularly scheduled periodic payments received or payable to the City on behalf of the Borrower pursuant to the terms of a Qualified Swap Agreement.

“Telerate Page 3750” shall mean the display designated on page 3750 on Moneyline Telerate, Inc. (or such other page as may subsequently replace the 3750 page on that service or such other service as may be nominated by the British Banker’s Association for the purpose of displaying London interbank offered rates for U.S. dollar deposits).

“Tender Price” shall mean the price at which Auction Rate Securities are tendered for purchase upon conversion to Fixed Rate Bonds, comprised of the principal amount thereof, plus interest, if any, accrued to the date of purchase, being payable solely from the proceeds of remarketing of said Auction Rate Securities in the form of Fixed Rate Bonds.

“Term Bonds” shall mean Bonds which are payable on or before their maturity dates from sinking fund payments established for that purpose and calculated to retire such Bonds or before their specified maturity dates.

“Termination Payment” shall mean the amount actually due by the City on behalf of the Borrower as a result of the early termination of any Qualified Swap Agreement pursuant to the terms thereof.

“Tranche” shall mean the designated portion of a Series of Bonds sharing a particular Mode, and other characteristics, designated as such on the inside cover of the Indenture. Each Tranche of Bonds within a Series of Bonds must be within the same Mode.

“Transfer Amount” shall mean, (a) as to any Fixed Rate Bond or Auction Rate Security, the aggregate Principal Amount thereof, or (b) as to any Capital Appreciation Bond, the Accreted Value or the Maturity Amount thereof.

“Treasury Rate” shall mean (a) the bond equivalent yield, calculated in accordance with prevailing industry conventions, of the rate on the most recently auctioned

direct obligation of the United States Government having a remaining maturity closest to the length of the applicable Auction Rate Period; as quoted in The Wall Street Journal on such date for the Business Day next preceding such date, or (b) in the event that such rate is not published in The Wall Street Journal, then the bond equivalent yield, calculated in accordance with prevailing industry conventions, as calculated by reference to the arithmetic average of the bid price quotations of the most recently auctioned direct obligation of the United States Government having a remaining maturity closest to the length of the applicable Auction Rate Period, based on bid price quotations on such date obtained by the Auction Agent from the U.S. Government Securities Dealers.

“Trust Estate” shall mean the Revenues, the Loan Agreement and the MPS Note and all rights, remedies and interests of the Authority under the Loan Agreement (except the Authority’s right to receive payments, if any, under Section 4.3 of the Loan Agreement) and the MPS Note and all of the moneys, rights and properties held by the Trustee or other depository under the Indenture.

“Trustee” shall mean Deutsche Bank National Trust Company, a national banking association with its designated corporate trust office and place of business in Chicago, Illinois, and qualified to accept the trusts under the Indenture, having been appointed by the Authority as Trustee thereunder and serving as such thereunder, and its successor as Trustee thereunder as provided in Section 9.13 of the Indenture.

“Undelivered Bond” shall mean any Auction Rate Security which constitutes an Undelivered Bond under the provisions of the Indenture.

“U.S. Government Securities Dealers” shall mean Lehman Brothers Inc. or its affiliates or successors, provided that any such entity is a dealer in U.S. Government securities.

SUMMARY OF THE PRINCIPAL BOND DOCUMENTS

THE TRUST INDENTURE

The following, in addition to the information contained elsewhere in this Official Statement, summarizes certain provisions of the Trust Indenture to be executed by the Authority and delivered to the Trustee, to which reference is made for a full and complete statement of the provisions thereof. This summary is not intended to be definitive and is qualified in its entirety by the above reference to the Trust Indenture.

GENERAL

The Bonds shall be designated “Redevelopment Authority of the City of Milwaukee, Wisconsin Taxable Pension Funding Bonds, 2003 Series (Milwaukee Public Schools),” and shall be further designated as set forth on the inside front cover of the Indenture, in the Series, Modes and Principal Amounts and with the maturities set forth thereon.

ADDITIONAL BONDS

Conditions for the Issuance of Additional Bonds.

At the request of the Borrower, the Authority may issue Additional Bonds on parity with the Bonds, upon compliance with the following specific conditions:

(a) The Authority must be in compliance with all agreements and covenants contained in the Indenture.

(b) The Borrower must be in compliance with the Loan Agreement including its obligation to make appropriations for Payments, Swap Payments and any Termination Payment as provided therein.

(c) The Loan Agreement must have been amended or supplemented to provide for payments by the Borrower sufficient to pay principal of, and interest and premium on, such Additional Bonds, and the Borrower must have delivered its note in such amount.

(d) The DPI Agreement must be amended, if necessary, to include the Additional Bonds.

(e) The issuance of such Additional Bonds, other than Additional Bonds issued to refund Bonds, must not cause the ratings by the Rating Agencies on the Outstanding Bonds to be reduced.

(f) The issuance of such Additional Bonds shall have been authorized pursuant to the Act and shall have been provided for by a Supplemental Indenture which shall specify the following:

(1) The purpose for which such Additional Bonds are to be issued; provided that such Additional Bonds must be applied solely for (i) the purpose of funding the obligation of

the Borrower to the Wisconsin Retirement System, consisting of unfunded prior service liability contributions and/or for payments of all costs incidental to or connected with the issuance of Additional Bonds for such purpose, and/or (ii) the purpose of refunding any Bonds then Outstanding, including payment of all costs incidental to or connected with such refunding;

(2) The authorized principal amount and designation of such Additional Bonds;

(3) The date and the maturity dates of and the sinking fund payments dates, if any, for such Additional Bonds;

(4) The Interest Payment Dates for such Additional Bonds;

(5) The denomination or denominations of and method of numbering such Additional Bonds;

(6) The redemption premiums, if any, and the redemption terms, if any, for such Additional Bonds;

(7) The amount, if any, to be deposited from the proceeds of sale of such Additional Bonds in the Interest Account hereinafter referred to; and

(8) Such other provisions (including the requirements of a book-entry Bond registration system, if any) as are necessary or appropriate and not inconsistent with the Indenture.

Procedure for the Issuance of Additional Bonds.

At any time after the sale of any Additional Bonds in accordance with the Act, the Authority shall execute such Additional Bonds for issuance under the Indenture and shall deliver them to the Trustee, and thereupon such Additional Bonds shall be delivered by the Trustee to the purchaser thereof upon the request of an Authorized Authority Representative, but only upon receipt by the Trustee of the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Additional Bonds by the Trustee: (a) an executed copy of the Supplemental Indenture authorizing the issuance of such Additional Bonds; (b) a written request of an Authorized Authority Representative as to the delivery of such Additional Bonds; (c) an Opinion of Counsel to the effect that (1) the Authority has executed and delivered the Supplemental Indenture, and the Supplemental Indenture is valid and binding upon the Authority and (2) such Additional Bonds are valid and binding obligations of the Authority entitled to the benefits of the Act and the Indenture; and such Additional Bonds have been duly and validly issued in accordance with the Act and with the Indenture; and (d) such further documents, money or securities as are required by the provisions of the Supplemental Indenture providing for the issuance of such Additional Bonds.

FUNDS AND ACCOUNTS

The following described trust funds and accounts are created under the Indenture to be held in the custody of the Trustee for the uses and purposes provided in the Indenture and summarized below:

Bond Proceeds Fund.

There shall be deposited into the Bond Proceeds Fund the amount of \$_____, which represents the amount of the proceeds of the sale of the Bonds, less original issue discount (exclusive of accrued interest thereon from their date to the Closing Date) and less the amount to be deposited into the Costs of Issuance Fund, to be used and applied to the payment of the cost of the Pension Funding Plan.

There shall also be deposited into the Bond Proceeds Fund the amount of \$_____ which is derived from the sale of the GO Notes. The Borrower will also make available on the Closing Date \$_____ for deposit in the Bond Proceeds Fund and \$_____ for deposit in the Bond Fund to make Loan Payments and Swap Payments until September 30, 2004.

The moneys on deposit from time to time in the Bond Proceeds Fund shall be held under and subject to the Indenture; shall be subject to the liens, pledges, charges, assignments and trusts created by the Indenture for the security and benefit of the Owners of the Bonds and Qualified Swap Providers; and, together with interest earned thereon, shall be used and applied solely to the payment of the cost of the Pension Funding Plan. The Trustee shall pay from the Bond Proceeds Fund on _____, _____, to the Wisconsin Retirement System the amount of \$_____.

The Trustee, promptly following the Closing Date, shall also pay from the Bond Proceeds Fund to the Borrower the amount of \$_____ and on January ___, 2004 shall pay to the Wisconsin Retirement System the amount of \$_____.

Costs of Issuance Fund.

There shall be deposited into the Costs of Issuance Fund the amount of \$_____ from the proceeds of the Bonds and \$_____ from the proceeds of the GO Notes, which is to be applied to the payment of the Costs of Issuance of the Bonds and GO Notes.

Bond Fund and Accounts.

The Bond Fund contains the following accounts:

- (i) Interest Account
 - a. Rate Stabilization Sub-Account
- (ii) Principal Account
- (iii) Redemption Account
- (iv) Service Account, and
- (v) Surplus Account

The designation of the Bond Fund and each account set forth above shall include the term “Milwaukee Public Schools”. The Bond Fund and each account is, however, sometimes referred to as set forth above.

The Trustee shall establish and maintain within the Principal Account a separate sub-account for the Term Bonds of each Series and maturity, designated as the “_____ Mandatory Sinking Account” (each, a “Mandatory Sinking Account”), inserting therein the maturity and Series (if more than one such account is established for such series) designation of such Bonds. With respect to each Mandatory Sinking Account, on each Principal Payment Date for the applicable Term Bonds, the Trustee shall apply the mandatory sinking account payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Bonds of the series and maturity for which such Mandatory Sinking Account was established, upon the notice and in the manner provided in Article III of the Indenture.

All money in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds as they shall become due and payable, whether at maturity or redemption, except that any money in any Mandatory Sinking Account shall be used and withdrawn by the Trustee only to purchase or to redeem or to pay Term Bonds for which such Mandatory Sinking Account was created.

So long as Auction Rate Securities are outstanding, there shall be maintained in the Interest Account and sub-account therein an amount equal to not less than .8% of the principal amount of all outstanding Auction Rate Securities (the “Minimum Balance”). If at any time the moneys on deposit in the Interest Account are less than the Minimum Balance, the Trustee shall promptly notify the Authority, the Borrower, the City and the Insurer. If the Interest Account is not timely replenished, the Superintendent of Schools of the Borrower shall include in the Borrowers budget for the ensuing Fiscal Year for submission to its Board an amount sufficient to achieve the Minimum Balance in addition to the Payments under the Loan Agreement and the Swap Payments.

The Trustee shall deposit the Loan Payments (including State Aid remitted by DPI to the Trustee as Loan Payments) or other money set forth below in the Bond Fund and credit the accounts therein set forth below in the order set forth below:

(a) On or before January 1 in each year, into the Bond Fund for credit to the Interest Account and Principal Account therein, the amounts required, together with other funds available therefor in the Interest Account and Principal Account in the Bond Fund, to pay the

interest and principal payable on the Outstanding Bonds, including Swap Payments as provided in Section 7.04 of the Indenture, due in the period from the following April 1 through the following September 30.

(b) On or before August 1 in each year, into the Bond Fund for credit to the Interest Account and Principal Account therein, the amounts required, together with other funds available therefor in the Interest Account and Principal Account in the Bond Fund, to pay the interest and principal payable on the Outstanding Bonds, including Swap Payments as provided in Section 7.04 of the Indenture, due in the period from the following October 1 through the following March 31.

(c) On or before the State Aid distribution date next preceding April 1 in each year, into the Bond Fund, if the deposits are not made as provided in paragraph (a) hereof for credit to the Interest Account and Principal Account therein from moneys received under the DPI Agreement, the amount required, together with other funds available therefor in the Interest Account and Principal Account in the Bond Fund, to be applied by the Trustee to pay the interest and principal payable on the Outstanding Bonds, including Swap Payments as provided in Section 7.04 of the Indenture, becoming due in the period referred to in paragraph (a) above.

(d) On or before the State Aid distribution date next preceding October 1 in each year, into the Bond Fund, if the deposits are not made as provided in paragraph (b) hereof for credit to the Interest Account and Principal Account therein from moneys received under the DPI Agreement, the amount required, together with other funds available therefor in the Interest Account and Principal Account in the Bond Fund, to be applied by the Trustee to pay the interest and principal payable on the Outstanding Bonds, including Swap Payments as provided in Section 7.04 of the Indenture, becoming due in the period referred to in paragraph (b) above.

(e) On the last Business Day prior to the day on which any redemption is to occur (other than a redemption funded by monies in a Mandatory Sinking Account of the Principal Account), into the Bond Fund for credit to the Redemption Account therein the amount required (including any accrued and unpaid interest on the Bonds then being redeemed to such redemption date), with other moneys available therefor in such Redemption Account, to pay the redemption price of the Bonds then being redeemed.

In estimating the amounts of the Authority's and Borrower's obligations (i) the debt service for Auction Rate Securities covered by a Swap Agreement shall be calculated at the fixed rate payable by the City on behalf of the Borrower under such Swap Agreement; and (ii) interest on Auction Rate Securities not covered by a Swap Agreement shall be calculated at the actual average interest rates for Auction Rate Securities during the twelve calendar months immediately preceding the month in each year in which the Borrower's budget is approved by the Board, plus 200 basis points (2.00%).

If other moneys are received by the Trustee as advance payments of Loan Payments to be applied to the redemption of all or a portion of the Bonds, such moneys shall be deposited in the Bond Fund for credit to the Redemption Account therein unless otherwise required to be deposited in a Mandatory Sinking Account for the payment of Term Bonds.

Application of Moneys in the Bond Fund.

The Bond Fund shall be used for the purpose of making scheduled payments of principal of and interest on the Bonds and of making payments of the redemption price of Bonds then subject to redemption in the manner provided in the Indenture. The moneys in the Bond Fund shall be applied as follows:

Interest Account. The Trustee shall make interest payments to the Owners and Qualified Swap Providers in accordance with the terms of the Indenture from moneys described in Sections 7.02(a) or 7.02(b) of the Indenture and, to the extent a claim has been made on the Insurance Policy for interest on the Bonds the Trustee shall make payments to the Insurer pursuant to the Insurance and Reimbursement Agreement of amounts due thereunder as a result of such claim.

Principal Account. The Trustee shall make all principal payments at maturity of the Bonds, and all mandatory sinking account payments in accordance with Schedule I to the Indenture, to the Owners thereof in accordance with the terms of the Indenture from moneys described in Sections 7.02(a) or 7.02(b) of the Indenture and, to the extent a claim has been made on the Insurance Policy for principal of the Bonds the Trustee shall make payment to the Insurer pursuant to the Insurance and Reimbursement Agreement of amounts due thereunder as a result of such claim.

Redemption Account. The Trustee shall call on the date set for the redemption thereof, as provided in Article III of the Indenture, a principal amount of Bonds then subject to redemption. The Trustee shall apply the amount credited to the Redemption Account equal to the principal amount of and premium, if any, and unpaid and accrued interest on Bonds then subject to redemption to the payment of the redemption price of such Bonds on the redemption date from moneys described in Section 7.02(e) of the Indenture. This paragraph does not apply to Term Bonds to be redeemed from a Mandatory Sinking Account referred to in Section 7.01(b) of the Indenture.

All moneys in the Redemption Account on the last Business Day prior to a maturity date shall be transferred to the Principal Account.

Upon the retirement of any portion of the Bonds by redemption pursuant to the provisions of Section 7.03 of the Indenture, the Trustee shall file with the Authority, the City and the Borrower a statement stating the amounts of the Bonds so redeemed and setting forth the date of their redemption and the amount paid as principal, premium, if any, and interest thereon.

Service Account. An amount equal to the Annual Service Charges and Additional Payments excluding Termination Payments, if any, shall be deposited into the Service Account. On each date provided therefor in the Auction Agent Agreement and the Broker-Dealer Agreement, the Trustee shall pay, upon receipt of appropriate invoices, the fees then due to the Auction Agent and the Broker-Dealer, as set forth therein, from amounts on deposit in the Service Account. The Trustee shall also pay Additional Payments excluding Termination Payments, if any, from the Service Account when due.

Surplus Account. Following the payments set forth above, any moneys remaining in the Bond Fund shall be deposited by the Trustee in the Surplus Account. Moneys deposited in the Surplus Account, including any earnings thereon, shall be released from the Surplus Account on the day following the final Interest Payment Date occurring during each Bond Year, and shall be (1) first, used to make Termination Payments, if any, and (2) second, to the extent that any Termination Payment is not due and payable, transferred to the Borrower to be used for any lawful purpose thereof, including the offset of future Loan Payments and Additional Payments. Any moneys remaining in the Surplus Account after the final payment of the Bonds is made all Swap Payments and Termination Payments are made and all amounts due under the Insurance and Reimbursement Agreement are made and shall be returned to the Borrower, provided, however, that moneys in the Surplus Account attributable to State Aid paid directly to the Trustee and not needed for any other purpose, may be transferred to the Borrower at any time.

Rate Stabilization Sub-Account in the Interest Account. On each date Loan Payments are deposited to the Interest Account, any excess in the Interest Account, attributable to Auction Rate Securities covered by a Qualified Swap Agreement, not anticipated to be needed prior to the date the next Loan Payments are due shall be transferred to the Rate Stabilization Sub-Account. In the event of a deficiency in the Interest Account, amounts in the Rate Stabilization Sub-Account may be transferred as necessary to the Interest Account.

Amounts in the Rate Stabilization Sub-Account in excess of 1.00% of the Auction Rate Securities outstanding may be used to purchase and cancel and/or defease any Outstanding Bond. The cost of purchasing an outstanding Auction Rate Security may include the cost of unwinding the portion of the Qualified Swap Agreement covering that Auction Rate Security.

Deposit Fund.

The Deposit Fund shall be funded and applied solely in accordance with Section 7.04 of the Indenture; it is intended for the proper matching of debt service payments on the Auction Rate Securities with the related Swap Payments, if any, payable from that portion of the MPS Note covered by Qualified Swap Agreements, and the required netting of such payments in order to assure full and timely payments to the Owners of the Auction Rate Securities affected by such Qualified Swap Agreements (collectively, “Swapped Bonds”).

On the sixth Business Day prior to each Interest Payment Date for Swapped Bonds, the Trustee shall transfer into the Deposit Fund from moneys on deposit in the Interest Account in the Bond Fund the amount that is necessary in order to make Swap Payments for all Swapped Bonds.

So long as the floating rate payable by the Qualified Swap Provider under a Qualified Swap Agreement is equal to or less than the fixed rate payable by the Borrower under such Qualified Swap Agreement (the “Swap Rate”), the Trustee will withdraw from the Bond Fund an amount equal to the difference between the Swap Rate and such floating rate and, on each payment date shall transfer to such Qualified Swap Provider such net amount. In the event that the floating rate payable by the Qualified Swap Provider under a Qualified Swap Agreement exceeds the Swap Rate, the Trustee shall accept for deposit into the Deposit Fund an amount from the Qualified Swap Provider equal to the difference between such floating rate and the

Swap Rate. Payments received to the Deposit Fund from the Qualified Swap Provider shall be transferred to the Interest Account in the Bond Fund and applied to the payment of interest on Bonds.

Application of Moneys.

All amounts in the Bond Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the amounts described as follows, and in the following order of priority:

(a) to Owners on each Interest Payment Date, and to Qualified Swap Providers, if any, on each payment date under Qualified Swap Agreements, amounts representing the interest and the principal amount then due and owing, including Swap Payments payable pursuant to Section 7.04 of the Indenture;

(b) to the Insurer all amounts due under the Insurance and Reimbursement Agreement to the Auction Agent and the Broker-Dealer, the Annual Service Charges specified in the Auction Agent Agreement and the Broker-Dealer Agreement; and

(c) after the final Interest Payment Date occurring in each Bond Year, any amounts payable to the Qualified Swap Provider (if any) under the Swap Agreement (if any) not described in clause (a) above and any Surplus to the Surplus Account or retained in the Bond Fund as directed by the City.

If at any time, amounts in the Bond Fund or Deposit Fund are, or are anticipated to be, insufficient to make the above payments when due, the Trustee shall calculate the amount necessary to fully fund the Bond Fund and Deposit Fund until the next Loan Payment date, and send a notice to the Borrower requesting payment of such amounts.

Investment of Money in Funds and Accounts.

Moneys in the Interest Account, Principal Account and Redemption Account in the Bond Fund and moneys in the Deposit Fund shall be invested or reinvested by the Trustee or a wholly-owned subsidiary of the Trustee, at the written direction of the City, to the extent reasonable and practicable, such investments to be in securities referred to in clauses (i) and (ii) of the definition of Investment Securities, maturing in the amounts and at the times as determined by the City so that the payments required to be made from the such funds and such accounts may be made when due.

Moneys in the Bond Proceeds Fund, Costs of Issuance Fund, and the Service Account and Surplus Account in the Bond Fund shall be invested or reinvested by the Trustee or a wholly-owned subsidiary of the Trustee, at the written direction of the City, to the extent reasonable and practicable, such investments to be in Investment Securities maturing in the amounts and at the times as determined by the City so that the payments required to be made from the Service Account and Surplus Account may be made when due.

The Trustee shall be authorized to sell any investment when necessary to make the payments to be made from the funds and accounts therein. All earnings on and income from

moneys in such funds and accounts created hereby shall be considered to be Revenues and shall be deposited in the Bond Fund for use and application as are all other moneys deposited in that Fund. The Trustee or its wholly-owned subsidiary shall, in the statements required by Section 9.07 of the Indenture, set forth the Investment Securities held separately in, and the earnings realized on investment for, each fund and account thereunder. Subject to the provisions of Article IX of the Indenture, the Trustee or its wholly-owned subsidiary shall not be liable for any depreciation in the value of the Investment Securities acquired in accordance with the Indenture or any loss suffered in connection with any investment of funds made by it in accordance herewith, including, without limitation, any loss suffered in connection with the sale of any investment pursuant hereto.

The Trustee or its wholly-owned subsidiary may make any and all such investments through its own investment department. All Investment Securities shall constitute a part of the respective funds and accounts therein from which the investment in Investment Securities was made.

PARTICULAR COVENANTS OF THE AUTHORITY

Covenants as to Payments and Other Income.

The Authority has made provision for the collection of the Payments payable pursuant to Article IV of the Loan Agreement. The Authority agrees under the Indenture that, except as provided in the Indenture and the Loan Agreement, it will not pledge, convey, encumber or otherwise dispose of any part of the Revenues or assign its rights under the Loan Agreement or the MPS Note.

Payment of Principal, Premium, If Any, and Interest.

The Authority covenants under the Indenture that it has made provision for the prompt payment from the Revenues of the principal of and premium, if any, and interest on every Bond issued under the Indenture at the places, on the dates and in the manner provided herein and in such Bonds according to the true intent and meaning thereof. The principal, premium, if any, and interest (except interest paid from the proceeds of the Bonds) are payable solely from the Revenues, and nothing in the Bonds or the Indenture shall be considered as assigning or pledging any other funds or assets of the Authority other than the Revenues and the right, title and interest of the Authority in the Loan Agreement and the MPS Note in the manner and to the extent herein specified. No Owner shall have the right to compel any exercise of the taxing power of the State of Wisconsin or any political subdivision thereof to pay the principal of the Bonds or the premium, if any, or interest thereon.

Performance of Covenants by the Authority.

The Authority covenants under the Indenture that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions on its part to be performed, contained in the Indenture, in any and every Bond executed, authenticated and delivered thereunder and in all its proceedings pertaining thereto; provided, however, that the Authority shall not be obligated to take any action or execute any instrument pursuant to any provision of the Indenture until it shall have been requested to do so by the City, the Borrower or

by the Trustee or shall have received the instrument to be executed and at the Authority's option shall have received from the City or the Borrower assurance satisfactory to the Authority that the Authority shall be reimbursed for its reasonable expenses incurred or to be incurred in connection with taking such action or executing such instrument. The Authority covenants that it is duly authorized under the Constitution and laws of the State of Wisconsin, including particularly and without limitation, the Act, to issue the Bonds authorized hereby, to execute the Indenture, to grant the security interest herein provided, to assign the Loan Agreement and the MPS Note and to pledge the amounts hereby pledged in the manner and to the extent herein set forth; that all action on its part for the issuance of Bonds and the execution and delivery of the Indenture has been duly and effectively taken; and that the Bonds in the hands of the Owners thereof and all Qualified Swap Agreements are and will be valid special limited obligations of the Authority according to the terms thereof and hereof.

Delegation of Comptroller of the City.

The Authority covenants under the Indenture that the Commissioner of the Authority in its resolution approving the Indenture has authorized the Comptroller of the City to take all such actions and give all such directions and approvals as are required under the Indenture, unless the Authority directs the Trustee otherwise. The Authority has also authorized the Comptroller to act as Authorized Authority Representative under the Indenture, unless the Authority directs the Trustee otherwise.

DEFAULTS AND REMEDIES

Events of Default.

If any of the following events occur, it constitutes an Event of Default under the Indenture:

(a) Payment of the principal of or premium, if any, on any Bond (whether by virtue of maturity, proceedings for redemption or otherwise) shall not be made when the same shall become due and payable; provided that, with respect to any payment of principal of or premium, if any, on a Bond called for redemption (other than upon declaration of acceleration after a Loan Default Event), such nonpayment shall have continued for three (3) Business Days; or

(b) Payment of any installment of interest on any Bond shall not be made when the same shall become due and payable and such nonpayment shall continue for three (3) Business Days; or

(c) Failure by the Authority to perform duly and punctually any of the covenants, conditions, agreements, provisions or obligations, other than as set forth in clauses (a) and (b) above, contained in the Bonds or in the Indenture or in any Supplemental Indenture on the part of the Authority to be performed, and such failure shall continue for sixty (60) days after written notice specifying such failure and requiring the same to be remedied is given to the Authority and the City by the Trustee or to the Trustee, the Authority, the Insurer and the City by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding (determined in accordance with the provisions of Section 11.03 of the

Indenture) or any Owners' Committee (as provided for in Section 10.08); *provided* that if any such failure shall be such that it cannot be cured or corrected within such sixty (60) day period, it shall not constitute an Event of Default under the Indenture if curative or corrective action is instituted within such period and diligently pursued until the failure of performance is cured or corrected.

Declaration of Principal and Interest As Due.

Upon the occurrence and continuance of any Event of Default of which the Trustee has been notified or is deemed to have notice as provided in the Indenture, then and in every case the Trustee by a notice in writing to the Authority and the City may with the consent of the Insurer and shall at the direction of the Insurer, and, upon the written request of the Owners of not less than twenty-five percent (25%) in principal amount of the Bonds then Outstanding (determined in accordance with the provisions of Section 11.03 of the Indenture) and with the consent of the Insurer shall, declare the principal (or redemption price) of and accrued interest on such principal amount of all the Bonds then Outstanding (if not then due and payable) to be due and payable immediately, and upon such declaration the same shall become due and be immediately due and payable, anything contained in the Bonds or in the Indenture to the contrary notwithstanding. If, however, at any time after the principal (or redemption price) of the Bonds shall have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such Event of Default, or before the completion of the enforcement of any other remedy under the Indenture, moneys shall have accumulated in the Bond Fund sufficient to pay the principal of and premium, if any, and interest on all matured Bonds and all Bonds (or portions of the principal amount thereof) then or theretofore required to be redeemed pursuant to any provisions of the Indenture and all arrears of interest and interest then due, if any, upon Bonds then Outstanding and if the fees, compensation, expenses, disbursements, advances and liabilities of the Trustee and all other amounts then payable by the City under the Loan Agreement and the MPS Note (including additional interest on overdue interest to the extent permitted by law at the rate borne by the Bonds plus two per centum (2%) per annum, but excluding principal (or redemption price) and interest not then due except by reason of the aforesaid declaration) shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee, and every other Event of Default known to the Trustee in the observance or performance of any covenant, condition or agreement contained in the Bonds or in the Indenture (other than default in the payment of the principal of and interest on such Bonds then due only because of a declaration under this Section) shall have been remedied to the satisfaction of the Trustee or, the City shall be taking, or shall be causing to be taken, appropriate action in good faith to effect its cure, then and in every such case the Trustee may, and upon the written request or direction of the Owners of not less than a majority in principal amount of the Bonds (determined in accordance with the provisions of Section 11.03 of the Indenture) not then due by their terms (other than because of a declaration under this Section) and then Outstanding shall, by written notice to the Authority, rescind and annul such declaration and its consequences. No such rescission or annulment pursuant to the next preceding sentence shall extend to or affect any subsequent default or impair any right consequent thereto.

Action by Trustee Upon Occurrence of Event of Default.

Upon the occurrence and continuation of an Event of Default the Trustee (i) for and on behalf of the Owners of the Bonds, shall have the same rights under the Indenture which are possessed by any Owners of the Bonds; (ii) shall be authorized to proceed, in its own name and as trustee of an express trust; (iii) may with the consent of the Insurer pursue any available remedy by action at law or suit in equity to enforce the payment of the principal (or redemption price) of and interest on the Bonds; (iv) may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of such Trustee and of the Owners of the Bonds allowed in any judicial proceedings relative to the Authority, the City or the Borrower, their respective creditors, their respective property or the Bonds; and (v) may with the consent of the Insurer, and upon the written request or direction of the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding and the Insurer shall, proceed to protect and enforce all rights of the Owners and the Trustee under and as permitted by the Indenture and the laws of the State, by such means or appropriate judicial proceedings as shall be suitable or deemed by it most effective in the premises, including the appointment of temporary trustees and any actions, suits or special proceedings at law or in equity or in bankruptcy or by proceedings in the office of any board or officer having jurisdiction, or otherwise, whether for the specific enforcement of any covenant or agreement contained in the Indenture, or in aid of execution of any power granted in the Indenture or to enforce any other legal or equitable right or remedy vested in the Owners of the Bonds or the Trustee by the Indenture or by such laws, or for the appointment of a receiver. All rights of action (including the right to file proofs of claim) under the Indenture or under any of the Bonds may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or other proceedings relating thereto. Any such suit or proceeding instituted by the Trustee shall be brought in its name and as trustee of an express trust without the necessity of joining as plaintiffs or defendants any Owners of the Bonds, and any recovery or judgment shall be for the equal benefit of the Owners of the Outstanding Bonds.

In the enforcement of any remedy under the Indenture the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts, then or during any Event of Default becoming, and at any time remaining, due from the City on behalf of the Borrower and unpaid under the Loan Agreement and the MPS Note for principal, interest or otherwise under any of the provisions of the Indenture or of the Bonds, with interest on overdue payments if such interest then is permitted by the laws of the State, together with any and all costs and expenses of collection and of all proceedings thereunder and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Owners, and to recover and enforce judgment or decree against the City on behalf of the Borrower under the Loan Agreement and the MPS Note, but solely as provided herein and in such Bonds, for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect in any manner provided by law, the moneys adjudged or decreed to be payable. Any such judgment shall be recovered by the Trustee, in its own name and as trustee of an express trust.

Disposition of Moneys in Event of Insufficiencies in Funds and Accounts.

All moneys received by the Trustee pursuant to any right given or action taken under the provisions of Article X of the Indenture, after payment of the costs and expenses of the

proceedings resulting in the collection of such moneys and of the expenses, fees and advances incurred or made by the Trustee (including reasonable expenses, fees and advances incurred by its counsel) thereunder, shall be deposited in the applicable Bond Fund. If at any time the moneys in the Bond Fund shall not be sufficient to pay the principal (or the redemption price) of or interest on the Bonds as the same become due and payable (whether at maturity or upon proceedings for the redemption thereof or by acceleration or otherwise), the moneys in the Bond Fund, together with any other moneys then available or thereafter becoming available for such purpose, whether through the exercise of the remedies provided for in Article X of the Indenture or otherwise, shall be applied as follows:

(a) Unless the principal of all the Bonds shall have become due and payable or shall have been declared due and payable pursuant to the provisions of Section 10.03 of the Indenture, all such moneys shall be applied:

First: to the payment to the persons entitled thereto of all installments of interest then due, in the order of the maturity of the installments of such interest and Swap Payments, and amounts due under the Insurance and Reimbursement Agreement with respect to a claim for interest under the Insurance Policy, and if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds and Qualified Swap Agreements;

Second: to the payment to the persons entitled thereto of unpaid principal which shall have become due, in the order of the dates such principal became due, with interest upon such principal from the respective dates upon which such principal became due, and amounts due under the Insurance and Reimbursement Agreement with respect to a claim for principal under the Insurance Policy and, if the amount available shall not be sufficient to pay in full the principal due on any particular date, together with such interest, then first to the payment of such interest, ratably according to the amount of such interest due on such date and then to the payment of such principal, ratably according to the amount of such principal due on such date, to the persons entitled thereto without any discrimination or preference;

Third: to the payment of the principal of and interest on the Bonds, to the purchase and retirement of Bonds and to the redemption of Bonds, all in accordance with the provisions of the Indenture;

Fourth: to the payment of any additional amounts than due the Insurer under the Insurance and Reimbursement Agreement; and

Fifth: to Termination Payments, if any, to the extent funds have been appropriated for such purpose and funds are available for same not earlier than the end of the Bond Year in which the appropriation is made from the Surplus Account, but not from the Bond Fund (other than the Surplus Account) unless all principal of the Bonds has been paid.

(b) If the principal of any of the Bonds shall have become due and payable or shall have been declared due and payable pursuant to the provisions of Section 10.03 of the Indenture, all such moneys shall be applied to the payment of the principal and interest and Swap Payments and all payments due under the Insurance and Reimbursement Agreement then due and unpaid, with interest on such principal as aforesaid, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds. Following such payments and remaining moneys shall be applied to payment of any Termination Payments.

(c) If the principal of all the Bonds shall have been declared due and payable pursuant to the provisions of Section 10.03 of the Indenture, and if such declaration shall thereafter have been rescinded and annulled pursuant to the provisions of such Section 10.03, then, subject to the provisions of subparagraph (b) above of this paragraph in the event that the principal of all the Bonds shall later become due and payable or be declared due and payable pursuant to the provisions of Section 10.03 of the Indenture, the moneys then held in the Bond Fund shall be applied to the payment of the principal (or redemption price) on all matured Bonds and all Bonds (or portions of the principal amount thereof) then or theretofore required to be redeemed pursuant to any provisions of the Indenture (excluding principal not then due except by reason of such declaration) and all arrears of interest and interest then due, if any, upon all Bonds then Outstanding and all Swap Payments then due and unpaid, all amounts due under the Insurance and Reimbursement Agreement and any moneys thereafter deposited in such Bond Fund shall be applied in accordance with the provisions of Article VII of the Indenture.

Whenever moneys are to be applied by the Trustee pursuant to the provisions of subparagraphs (a) and (b) of this Section: (i) such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future; (ii) the deposit of such moneys, in trust for the proper purpose, shall constitute proper application by the Trustee; and (iii) the Trustee shall incur no liability whatsoever to the Authority, to any Owner or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard to the circumstances, and ultimately applies the same in accordance with such provisions of the Indenture as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be an Interest Payment Date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the fixing of any such date, and shall not be required to make payment to the Owner of any unpaid Bond until such Bond shall be surrendered to the Trustee for appropriate endorsement, or for cancellation if fully paid.

Effect of Delay or Omission; Waiver of Default; Direction of Remedial Proceedings by the Owners.

No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein.

Anything in the Indenture to the contrary notwithstanding, the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding with the consent of the Insurer shall be authorized and empowered and have the right, by an instrument or concurrent instruments in writing delivered to the Trustee on behalf of the Owners of the Bonds then Outstanding, to consent to the waiver of any Event of Default or its consequences, and the Trustee shall waive any Event of Default and its consequences upon the written request of the Owners of such majority; provided, however, that there shall not be waived (i) any default in payment of principal when due; or (ii) any default in payment when due of interest unless, in either case, prior to such waiver all arrears in principal and interest, with additional interest, to the extent permitted by law, at the rate borne by the Bonds plus two per centum (2%) per annum, and all fees and expenses of the Trustee shall have been paid or provided for. No such waiver shall extend to or affect any other existing or subsequent default or Event of Default or impair any rights or remedies consequent thereon.

Anything in the Indenture to the contrary notwithstanding, the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding with the consent of the Insurer shall be authorized and empowered and have the right, in accordance with the provisions of law and the Indenture, by an instrument or concurrent instruments in writing delivered to the Trustee to direct the time and method of conducting all proceedings to be taken to enforce the provisions of the Indenture for any remedy to be taken by the Trustee or available to the Trustee or available to the Owners of the Bonds, or exercising any trust or power conferred upon the Trustee thereunder; provided (1) such direction shall not be in conflict with any rule of law or with the Indenture, or expose the Trustee to personal liability, or be unduly prejudicial to Owners not joining therein, or be contrary to the direction of other Owners of at least an equal principal amount of the Bonds, at the time Outstanding, and (2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction and which is acceptable to the Insurer.

Owners' Committee.

This Section applies only in the event the Bonds are uninsured. Upon the occurrence and continuance of any Event of Default, if the Trustee shall have failed or refused, for a period of sixty (60) days after its receipt of notice of such Event of Default, to comply with the written request or direction of the Owners of not less than twenty-five percent (25%) in principal amount of Bonds Outstanding referred to in clause (v) of Section 10.04 and in Section 10.07 of the Indenture after such Owners have offered to the Trustee reasonable indemnity against the cost, expenses, and liabilities to be incurred in compliance with such request and if no direction inconsistent with such request has been given to the Trustee during such sixty (60) day period by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding, the Owners of not less than twenty percent (20%) in aggregate

principal amount of the Bonds then Outstanding may call a meeting of the Owners of Bonds for the purpose of electing a committee of bondholders (a "Owners' Committee"). Such meeting shall be called and proceedings thereat shall be conducted as provided for other meetings of Owners pursuant to Section 11.02 of the Indenture. At such meeting the Owners of not less than a majority in principal amount of the Bonds Outstanding must be present in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any other notice than the announcement thereof at the meeting. A quorum being present at such meeting, the Owners present in person or by proxy may, by a majority of the votes cast, elect one or more persons, who may or may not be Owners, to the Owners' Committee which shall act as trustee for all Owners. The Owners present in person or by proxy at such meeting, or at any adjourned meeting thereof, (i) shall prescribe the manner in which the successors of the persons elected to the Owners' Committee at such Owners' meeting shall be elected or appointed; (ii) may prescribe rules and regulations governing the exercise by the Owners' Committee of the power conferred upon it herein; and (iii) may provide for the termination of the existence of the Owners' Committee. The Owners' Committee elected by the Owners in the manner herein provided, and their successors, as a Committee, are hereby declared to be trustees for the Owners of all the Bonds then Outstanding, and are empowered to exercise in the name of the Owners' Committee as trustee, all the rights and powers conferred in Article IX of the Indenture on the Trustee thereunder or any Owner.

Suits or Actions by Owners; Any Owner May Enforce Overdue Payment of His Bond or Interest Thereon.

No Owner of any of the Bonds shall have the right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the Indenture or for any other remedy hereunder unless there shall have occurred an Event of Default of which the Trustee has been notified or is deemed to have notice as provided in Section 9.08 of the Indenture, and such Owners previously shall have given to the Trustee written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted, and unless also the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a period of sixty (60) days either to proceed to exercise the powers hereinabove granted or to institute such action, suit or proceeding in its or their name, the Trustee shall have been indemnified by Owners against the costs, expenses and liabilities to be incurred in compliance with such request, and shall not have received an inconsistent direction from the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding and the Trustee shall have refused or neglected to comply with such request within a reasonable time. It is understood and intended that no one or more Owners of the Bonds hereby secured shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture, or to enforce any right thereunder except in the manner herein provided; that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the benefit of all Owners of such Outstanding Bonds; and that any individual rights of action or other right given to one or more of such Owners by law are restricted by the Indenture to the rights and remedies herein provided. Notwithstanding the foregoing, the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of any of the Owners, unless such Owners shall

have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

Notwithstanding any other provision of the Indenture, the right of any Owner to receive payment of the principal of and premium, if any, and interest on such Bond on or after the respective due dates expressed in such Bond, or to institute suit for the enforcement of any such payment on or after such respective due dates, shall not be impaired or affected without the consent of such Owner, except that no Owner of any such Bond shall have the right to institute any such suit if and to the extent that the institution or prosecution thereof or the entry of judgment therein would, under applicable law, result in the surrender, impairment, waiver or loss of the lien of the Indenture.

If the Bonds are insured under the Insurance Policy, the Insurer shall be treated as Owner of all of the Bonds.

AMENDING AND SUPPLEMENTING THE INDENTURE

Amending and Supplementing the Indenture Without Consent of Owners.

The Authority and the Trustee, from time to time and at any time, without the consent or concurrence of any Owner but with the consent of the Insurer, enter into Supplemental Indentures (i) to make any changes, modifications, amendments or deletions to the Indenture that may be required to permit the Indenture to be qualified under the Trust Indenture Act of 1939 of the United States of America; or (ii) that the Authority and the Trustee may deem necessary or desirable and which shall not materially adversely affect the interests of the Owners including, without limitation, any one or more of the following purposes:

(a) either (1) to make any changes or corrections in the Indenture or any Supplemental Indenture as to which the Authority shall have been advised by counsel that the same are required for the purpose of curing or correcting any ambiguity or defective or inconsistent provision or omission or mistake or manifest error contained in the Indenture or Supplemental Indenture, or (2) to insert in the Indenture such provisions clarifying matters or questions arising under the Indenture;

(b) to add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Bonds;

(c) to surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Indenture;

(d) to confirm as further assurance any lien, pledge or charge, or the subjection to any lien, pledge or charge, created or to be created by the provisions of the Indenture or any Supplemental Indenture;

(e) to grant to or confer upon the Owners any additional rights, remedies, powers, authority or security that lawfully may be granted to or conferred upon them, or to grant to or confer upon the Trustee for the benefit of the Owners any additional rights, duties, remedies, power or authority;

(f) to provide for the issuance of Bonds in book entry or coupon form, if at the time permitted by applicable law, or to change any provisions of the Indenture with respect to the issuance of the Bonds in book-entry form; and

(g) to provide for the issuance of Additional Bonds in accordance with Sections 2.03 and 2.04 of the Indenture.

Amending and Supplementing the Indenture With Consent of Owners.

With the consent of the Insurer and the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, the Authority and the Trustee from time to time and at any time may enter into a Supplemental Indenture for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Indenture, or modifying or amending the rights and obligations of the Authority thereunder, or modifying or amending in any manner the rights of the Owners of Bonds then Outstanding; provided that, without the specific consent of the Insurer and the Owner of each Bond Outstanding which would be affected thereby no Supplemental Indenture amending or supplementing the provisions of the Indenture shall: (a) change the fixed maturity date for the payment of the principal of any Bond, or the dates for the payment of interest thereon, or reduce the principal amount of any Bond or the rate of interest thereon; or (b) reduce the aforesaid percentage of Bonds the Owners of which are required to consent to any Supplemental Indenture amending or supplementing the provisions of the Indenture; or (c) give to any such Bond any preference over any other such Bond secured hereby; or (d) authorize the creation of any pledge of Payments prior or superior to the pledge of and lien and charge thereon created herein for the payment of the Bonds; or (e) effect any change in the redemption provisions relating to the Bonds; or (f) deprive any Owners in any material respect of the security afforded by the Indenture. A modification or amendment of the provisions of Article VII of the Indenture with respect to the Bond Fund or any other Funds or Accounts established thereby shall not be deemed a change in the terms of payment; provided that no such modification or amendment shall, except upon the consent of the Owners of all Bonds Outstanding affected thereby, reduce the amount or amounts required to be deposited in the applicable Bond Fund. Nothing in this paragraph contained, however, shall be construed as making necessary the approval of the Owners of the execution of any Supplemental Indenture authorized by the provisions of Section 12.01 of the Indenture.

The proof of the giving of any consent by any Owner required by this Section and of the holding of the Bonds for the purpose of giving consents shall be made in accordance with the provisions of Article XI of the Indenture. It shall not be necessary that the consent of the Owners approve the particular form of wording of the proposed amendment or supplement of the Supplemental Indenture effecting such amendment or supplement, but it shall be sufficient if such consent approve the substance of the proposed amendment or supplement. After the Owners of the required percentage of Bonds shall have filed their consents to the amending or supplementing of the Indenture pursuant to this Section, the Authority shall mail a copy of notice of such consent, postage prepaid, to each Owner at his or her address appearing upon the books of registry and to the Trustee. Nothing contained in this paragraph, however, shall be construed as requiring the giving of notice of any amending or supplementing of the Indenture authorized by this Section. A record of the consents shall be filed with the Trustee, and shall be proof of the

matters therein stated until the contrary is proved. No action or proceeding to set aside or invalidate such Supplemental Indenture or any of the proceedings for its adoption shall be instituted or maintained unless such action or proceeding is commenced within sixty (60) days after the mailing of the notice required by this paragraph.

If payment of debt service on a Bond is insured or otherwise credit enhanced, the issuer of the policy or credit enhancement may, at the option of the Authority, be considered as the Owner of such Bond for purposes of consenting to amendments as provided by this Section.

For purposes of amendments and Supplemental Indentures affecting only Article V, Auction Rate Bonds, "Owners" shall mean only the Owners of Auction Rate Securities.

AMENDING AND SUPPLEMENTING THE LOAN AGREEMENT

Supplemental Loan Agreements and Amendments to Loan Agreement Not Requiring the Consent of the Owners.

The Authority, the City and the Borrower may, with the written consent of the Trustee and the Insurer and without notice to or consent of any Owner, from time to time and at any time, agree to such supplemental loan agreements supplementing the Loan Agreement or amendments to the Loan Agreement as shall not be inconsistent with the terms and provisions of the Indenture and, in the opinion of the Authority, shall not materially adversely affect the interests of the Owners (which supplemental loan agreements or amendments to the Loan Agreement shall thereafter form a part of the Loan Agreement), including, without limitation:

(a) either (1) to make any changes or corrections in the Loan Agreement or any supplemental loan agreement as to which the Authority shall have been advised by counsel that the same are required for the purpose of curing or correcting any ambiguity or defective or inconsistent provision or omission or mistake or manifest error contained in the Loan Agreement or any supplemental loan agreement, or (2) to insert in the Loan Agreement such provisions clarifying matters or questions arising under the Loan Agreement as are necessary or desirable if such provisions shall not materially and adversely affect the rights of the Owners; or

(b) to grant to or confer upon the Trustee for the benefit of the Owners any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Owners or the Trustee.

Notice and Consent for Supplemental Loan Agreements Requiring the Consent of the Owners.

Except for supplemental loan agreements or amendments provided for in Section 12.05 of the Indenture and subject to Section 8.05 of the Indenture, neither the Authority nor the Trustee shall agree or consent, as the case may be, to any supplemental loan agreement or amendment to the Loan Agreement unless notice of the proposed execution of such supplemental loan agreement or amendment shall have been given and the Insurer and the Owners shall have consented to and approved the execution thereof in the same manner and form as provided for in Section 12.02 of the Indenture in the case of Supplemental Indentures.

If payment of debt service on a Bond is insured or otherwise credit enhanced, the issuer of the policy or credit enhancement shall be considered as the Owner of such Bond for purposes of consenting to amendments as provided by this Section.

Approval of Qualified Swap Providers.

Notwithstanding anything to the contrary therein, any amendment, change, modification or alteration of the Indenture that adversely affects the interest of any Qualified Swap Provider shall not be effective without the prior written consent of such Qualified Swap Provider.

DEFEASANCE

The obligations of the Authority under the Indenture and the liens, pledges, charges, trusts, covenants and agreements of the Authority therein made or provided for, shall be, subject to the terms of Section 13.02, fully discharged and satisfied as to the Bonds or portion thereof and the Bonds shall no longer be deemed to be Outstanding thereunder:

(a) when the Bonds shall have been cancelled, or shall have been surrendered for cancellation and are subject to cancellation, or shall have been redeemed by the Trustee from moneys held by it under the Indenture; or

(b) if the Bonds have not been cancelled or so surrendered for cancellation or subject to cancellation, or so redeemed, when payment of the principal of and premium, if any, on the Bonds, plus interest on such principal to the due date thereof (whether such due date occurs by reason of maturity or upon redemption or prepayment, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof, or (ii) shall have been provided for by irrevocably depositing with the Trustee in trust, and irrevocably appropriating and setting aside exclusively for such payment (1) moneys sufficient to make such payment, or (2) Government Obligations maturing as to principal and interest in such amount and at such times as will insure the availability of sufficient moneys to make such payment, or (3) a combination of both such moneys and Government Obligations, whichever the Authority deems to be in its best interest, and all necessary and proper fees, compensation and expenses of the Trustee pertaining to the Bonds with respect to which such deposit is made, shall have been paid or the payment thereof provided to the satisfaction of the Trustee. The adequacy of the moneys and Government Obligations so set aside shall be verified by a recognized firm of certified public accountants acceptable to the Insurer and a copy of such verification shall be furnished to the Insurer.

At such time as the Bonds shall be deemed to be no longer Outstanding thereunder, as aforesaid, such Bonds shall cease to accrue interest from the due date thereof (whether such due date occurs by reason of maturity, or upon redemption or prepayment, or otherwise) and, except for the purposes of any such payment from such moneys or Government Obligations, shall no longer be secured by or entitled to the benefits of the Indenture.

Any such moneys so deposited with the Trustee as provided in Section 13.01 of the Indenture may at the written direction of the City also be invested and reinvested in Government Obligations, maturing in the amounts and times as hereinbefore set forth, and all

income from all Government Obligations in the hands of the Trustee pursuant to said Section 13.01 which is not required for the payment of the Bonds and interest thereon with respect to which such moneys shall have been so deposited shall be paid to the City on behalf of the Borrower or if any Bonds are then Outstanding, be deposited in the Bond Fund and credited to the Interest Account therein as and when realized and collected, for use and application as are other moneys credited to such Account.

Anything in Article XIII of the Indenture to the contrary notwithstanding, if moneys or Government Obligations have been deposited or set aside with the Trustee pursuant to Section 13.01 of the Indenture for the payment of the Bonds and the Bonds shall be deemed to have been paid in full, no amendment to the provisions of said Article XIII shall be made without the consent of the Owners of the Bonds affected thereby.

INSURANCE PROVISIONS

For purposes of this Section only, "Bonds" shall be referred to herein as "Obligations" and "Owner(s)" as "Bondholder(s)" or "Holder(s)".

The Trustee is hereby irrevocably designated appointed, directed and authorized to act as attorney-in-fact for Holders of the Obligations as follows:

1. If and to the extent there is a deficiency in amounts required to pay interest on the Obligations, the Trustee shall (a) execute and deliver to U.S. Bank Trust National Association, or its successors under the Policy (the "Insurance Paying Agent/Trustee"), in form satisfactory to the Insurance Paying Agent/Trustee, an instrument appointing the Insurer as agent for such Holders in any legal proceeding related to the payment of such interest and an assignment to the Insurer of the claims for interest to which such deficiency relates and which are paid by the Insurer, (b) receive as designee of the respective Holders (and not as Trustee) in accordance with the tenor of the Policy payment from the Insurance Paying Agent/Trustee with respect to the claims for interest so assigned and (c) disburse the same to such respective Holders; and

2. If and to the extent of a deficiency in amounts required to pay principal of the Obligations, the Trustee shall (a) execute and deliver to the Insurance Paying Agent/Trustee in form satisfactory to the Insurance Trustee an instrument appointing the Insurer as agent for such Holder in any legal proceeding relating to the payment of such principal and an assignment to the Insurer of any of the Obligation surrendered to the Insurance Trustee of so much of the principal amount thereof as has not previously been paid or for which moneys are not held by the Paying Agent/Trustee and available for such payment (but such assignment shall be delivered only if payment from the Insurance Paying Agent/Trustee is received), (b) receive as designee of the respective Holders (and not as Trustee) in accordance with the tenor of the Policy payment therefor from the Insurance Paying Agent/Trustee, and (c) disburse the same to such Holders.

Payments with respect to claims for interest on and principal of Obligations disbursed by the Trustee from proceeds of the Policy shall not be considered to discharge the obligation of the Authority with respect to such Obligations, and the Insurer shall become the

owner of such unpaid Obligation and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise.

The Authority shall not enter into any agreement nor shall it consent to or participate in any arrangement pursuant to which Bonds are tendered or purchased for any purpose other than the redemption and cancellation or legal defeasance of such Bonds without the prior written consent of MBIA.

MISCELLANEOUS

With the exception of rights or benefits expressly conferred under the Indenture, nothing expressed or mentioned in or to be implied from the Indenture or the Bonds is intended or should be construed to confer upon or give to any person other than the Authority, the City, the Borrower, the Trustee, the Insurer and the Owners of the Bonds and Qualified Swap Providers any legal or equitable right, remedy or claim under or by reason of or in respect to the Indenture or any covenant, condition, stipulation, promise, agreement or provision herein contained. The Indenture and all of the covenants, conditions, stipulations, promises, agreements and provisions of the Indenture are intended to be and shall be for and inure to the sole and exclusive benefit of the Authority, the City, the Borrower, the Trustee, the Insurer, the Owners of the Bonds and the Qualified Swap Providers as therein provided.

No Commissioner, officer, agent or employee of the Authority shall be individually or personally liable for the payment of the principal of or premium, if any, or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law or by the Indenture.

THE LOAN AGREEMENT

The following, in addition to the information contained elsewhere in this Official Statement, summarizes certain provisions of the Loan Agreement to be entered into between the Borrower and the Authority, to which reference is made for a full and complete statement of the provisions thereof. This summary is not intended to be definitive and is qualified in its entirety by the above reference to the Loan Agreement.

REPRESENTATIONS BY THE BORROWER

The Borrower makes the following representations as the basis for its undertakings under the Loan Agreement:

(a) The Borrower is a body politic organized and existing under Chapter 119 of the Wisconsin Statutes and is vested with the rights and powers conferred upon it by Wisconsin law.

(b) The Loan Agreement was duly authorized by resolution of the Milwaukee Board of School Directors on November 20, 2003 (the "Borrower Resolution") and is substantially the same form as presented to the Board at the meeting at which the Borrower Resolution was adopted.

(c) The Borrower has full right, power and authority to (i) adopt the Borrower Resolution and execute and deliver the Loan Agreement and the related documents, (ii) request the City to issue the MPS Note to the Authority, (iii) direct the City to use the proceeds of the MPS Note for the Pension Funding Plan on behalf of the Borrower and (iv) carry out and consummate all of the transactions contemplated by the Loan Agreement.

(d) The Borrower Resolution was duly adopted by a majority of the members of the Board, is in full force and effect and constitutes the legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its terms.

(e) The Loan Agreement has been executed and delivered by a duly authorized official of the Borrower and constitutes the legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its terms.

(f) There are not pending nor, to the best of the Borrower's knowledge, threatened, any actions, suits, proceedings or investigations against the Borrower of a legal, equitable, regulatory, administrative or legislative nature, in which a judgment, order or resolution may have a material adverse effect on the Borrower or its business, assets, condition (financial or otherwise), operations or prospects or on its ability to perform its obligations under the Borrower Resolution or the Loan Agreement.

(g) No material adverse change has occurred in the financial condition of the Borrower as indicated in the financial statements, applications and other information furnished to the Authority.

(h) There is and will be no indebtedness of the Borrower, or the City on behalf of the Borrower, secured by a pledge of Revenues prior to the lien on, or the pledge of, Revenues securing the MPS Note; provided, however, that Parity Debt, including Short-Term School Order Notes, may be issued from time to time on a parity with the MPS Note; and, provided further, that there are presently outstanding \$150,000,000 Short-Term School Order Notes, Series 2003 M5, having a superior lien on Revenues.

(i) No Event of Default or event which, with notice or lapse of time, or both, would become an Event of Default has occurred and is continuing.

ISSUANCE OF THE BONDS

In order to provide funds to loan to the Borrower to finance a portion of the cost of the Pension Funding Plan, the Authority agrees that it will issue and sell the Bonds in the aggregate principal amount of \$146,569,121.70, bearing interest and maturing as set forth in the Indenture and it will deposit the proceeds thereof in accordance with the provisions of Sections 2.06(a), 2.06(b), and 2.06(c) of the Indenture. Approval by the City and the Borrower of the terms of the Bonds and the Indenture shall be conclusively established by their execution and delivery of this Loan Agreement.

TERMS OF THE LOAN AND PAYMENTS

The Authority agrees, upon the terms and conditions in the Loan Agreement, to lend to the Borrower the principal amount of the Bonds and to make the net proceeds received by the Authority from the sale of the Bonds (exclusive of accrued interest) available to the Trustee to finance a portion of the cost of the Pension Funding Plan. In addition, the Authority shall pay from the proceeds of the Bonds to be deposited with the Trustee in the Costs of Issuance Fund, the costs of issuance of the Bonds. Simultaneously with the delivery of the Bonds, the City shall execute and deliver the MPS Note, corresponding to the loan made under the Loan Agreement, to the Authority in accordance with this Section. The obligation of the Borrower to make Payments other than Swap Payments and Termination Payments under the Loan Agreement and under the MPS Note shall be determined based on the principal amount of the Bonds determined after taking into account any redemption of Bonds upon any optional prepayment by the Borrower of its Loan Payments pursuant to Section 4.5 of the Loan Agreement.

Payments Payable.

(a) Prior to the beginning of each Fiscal Year beginning on and after July 1, 2004, the Superintendent of Schools of the Borrower shall include in the Borrower's budget for the ensuing Fiscal Year of the Borrower for submission to its Board an amount equal to the Payments and Swap Payments due in such Fiscal Year. Interest on Auction Rate Securities covered by a Qualified Swap Agreement shall be budgeted in the Borrower's budget at the interest rate to be paid by the City on behalf of the Borrower under such Qualified Swap Agreement. Interest on Auction Rate Securities not covered by a Qualified Swap Agreement shall be budgeted in the Borrower's budget at the actual average interest rates for any Auction Rate Securities outstanding during the twelve calendar months immediately preceding the month in each year in which the Borrower's budget is approved by the Board plus 200 basis points

(2.00%). Interest on Fixed Rate Bonds shall be computed in the Borrower's budget at the actual rate for Fixed Rate Bonds. The obligation of the Borrower to make the Payments and Swap Payments from other than State Aid shall be limited to the amount appropriated, if any, by the Board of School Directors for such purpose in respect of such Fiscal Year, without regard to an offset for Swap Receipts, if any. If the amount so appropriated is not sufficient to make the Payments and Swap Payments in any Fiscal Year, the Borrower shall remain obligated to make such Payments and Swap Payments, for such Fiscal Year from other moneys in the School Operations Fund. The Comptroller of the City shall file a certificate in a form acceptable to the Trustee, no later than June 1 of each year, certifying that the Borrower either appropriated, or failed to appropriate, Payments and Swap Payments if any, in an amount satisfying the requirements set forth above for the next succeeding Fiscal Year.

(b) On the Closing Date, the Borrower shall pay to the Trustee for deposit in the Principal and Interest Accounts in the Bond Fund amounts sufficient to pay the Loan Payments and Swap Payments until September 30, 2004, computed at the interest rates to be paid by the City on behalf of the Borrower under the Qualified Swap Agreement then in effect.

(c) (i) The Borrower directs the City to pay to the Trustee for deposit in the appropriate accounts in the Bond Fund in each year that the Bonds are Outstanding and a Swap Agreement is in effect from moneys in the School Operations Fund held by the City, to the extent appropriated by the Board of School Directors, on August 1, 2004 and on August 1 in each year thereafter an amount equal to the Loan Payments and Swap Payments due for the period from the following October 1 through the following March 31 and on January 1 in each year thereafter an amount equal to the Loan Payments and Swap Payments due for the period from the following April 1 through the following September 30. The City agrees that it will make such payments as directed. If the Loan Payments and Swap Payments are not paid in full by the City on such dates in any year, the Borrower has directed DPI to pay from State Aid to the Trustee on the State Aid distribution date in each year next preceding each April 1 and October 1, respectively, amounts equal to the Loan Payments and Swap Payments due as set forth above; provided, however, that if State Aid distribution dates should subsequently change, the parties hereto may modify the foregoing provisions of this paragraph (c) with consent of the Trustee, the Insurer and the Qualified Swap Provider.

(ii) On the sixth Business Day preceding an Interest Payment Date, the Trustee shall calculate the amount of Loan Payments and Swap Payments due on such Interest Payment Date and shall also determine the amount of money available in the Interest Account in the Bond Fund to make such Loan Payments and Swap Payments when due. In the event that the Trustee determines that there is a deficiency in the Interest Account in the Bond Fund, the Trustee shall advise the Borrower and the City thereof and the Borrower directs the City to pay to the Trustee from the School Operations Fund, from moneys deposited therein, on or before the third Business Day preceding the Interest Payment Date, an amount equal to such deficiency for deposit in the Interest Account in the Bond Fund. The moneys referred to in the preceding sentence constitute the revenues designated by the Borrower pursuant to Section 119.499(2)(a), Wisconsin Statutes. Any such amount paid by the City to the Trustee shall not require an appropriation by the Borrower.

(d) The Borrower covenants and agrees to pay the Loan Payments and Swap Payments as and when the same are due and payable in accordance with the MPS Note and this Section. The Borrower directs the City to make up at any time, and pay from the School Operations Fund, any deficiencies in Loan Payments and Swap Payments. The obligation of the City to make up such deficiencies in Loan Payments and Swap Payments from the School Operations Fund, from moneys deposited therein, shall not be subject to prior appropriation by the Board of School Directors. The moneys referred to in the preceding sentence constitute the revenues designated by the Borrower pursuant to Section 119.499(2)(a), Wisconsin Statutes. Payments made from the School Operations Fund shall first be applied to the payment of Loan Payments and Swap Payments on a pro rata basis, next to Additional Payments excluding Termination Payments, then to Termination Payments and any other payments due.

The obligation of the Borrower to make the Loan Payments shall be satisfied when made to the Trustee or to the extent there are sufficient amounts credited to the Principal Account and the Interest Account in the Bond Fund held under the Indenture to make the payments therefrom which are then required to be made. The obligation of the Borrower to make Swap Payments and Termination Payments to a Qualified Swap Provider under any Qualified Swap Agreement shall be satisfied when made by the Trustee to such Qualified Swap Provider.

(e) The Loan Payments shall be the amounts of principal of, and premium, if any, and interest on the MPS Note which shall be in an aggregate amount sufficient for, together with other amounts held by the Trustee and available under the Indenture for application to, the payment in full of the Bonds consisting of (i) the total interest becoming due and payable on Bonds to the date of payment thereof, and (ii) the total principal becoming due and payable on Bonds to the date of the payment thereof (together with any required premium).

The Borrower covenants that it shall deposit, or cause to be deposited, with the Trustee sufficient funds to assure that no default shall occur at any time in the payment of the principal of or premium, if any, or the interest on the Bonds, to the extent appropriated as provided in paragraph (a) above or paid from the State Aid as provided in paragraph (b) above, and that no unreasonable delay shall occur in the payment of the costs and expenses payable from Additional Payments.

(f) In addition to the Loan Payments under paragraph (d) above, the Borrower shall pay an additional amount to the Trustee for deposit into the Bond Fund and credit to the Redemption Account therein to be applied to the payment of the principal (or redemption price) and accrued interest, if any, payable upon an optional redemption of the Bonds pursuant to Article III of the Indenture to the extent not provided from the other sources described therein.

Each installment of Loan Payments paid by the Borrower shall be increased as may be necessary to make up any previous deficiency in any of the required payments and to make up any deficiency in the Bond Fund.

(g) The Borrower further covenants and agrees to pay at any time, when due and payable, as Additional Payments, certain additional amounts and costs and expenses, exclusive of costs and expenses payable from the proceeds of the Bonds. Each installment of

Additional Payments, if any, shall be equal to the sum of the amounts set forth in clauses (i) to (v), inclusive, below, and the Borrower shall pay to the Trustee for deposit in the Service Account in the Bond Fund for payment directly to the persons entitled to such payments upon their request; *provided*, the Borrower shall not be required to pay any expense, disbursement or advance (other than any Termination Payment) that may be attributable to the negligence or bad faith of any party. If any amount set forth in clause (vi) below is due, the Borrower shall pay to the Trustee for deposit in the Surplus Account such amounts when appropriated for payment at the end the Bond Year in which appropriated. "Additional Payments" is hereby defined to be the aggregate of the installments of the following:

- (i) the reasonable fees and expenses and all other amounts payable to the Authority and the Trustee or other paying agents under the Loan Agreement and the Indenture;
 - (ii) all reasonable costs incurred in connection with the transfer, exchange, purchase or redemption of Bonds not otherwise paid by the Owners thereof, including all charges of the Authority and the Trustee with respect thereto, to the extent moneys are not otherwise available therefor;
 - (iii) the reasonable fees and other costs, not otherwise paid under the Loan Agreement or the Indenture, incurred by the Authority in connection with its administration and enforcement of, and compliance with, the Loan Agreement and the Indenture and that the Borrower is obligated to pay, including, but not limited to, attorneys' fees;
 - (iv) Annual Service Charges;
 - (v) Other amounts due to the Bond Insurer under the Insurance and Reimbursement Agreement; and
 - (vi) Termination Payment, if any.
- (h) The Borrower further covenants and agrees, whether or not any Bonds are Outstanding, to pay, or cause to be paid, to the Trustee, when due and payable, all amounts due under the Insurance and Reimbursement Agreement, the Swap Payments, and other payments under the Qualified Swap Agreement other than Swap Payments.
- (i) In the event that the Borrower shall fail to make any Payment as required by this Section, the Payment so in default shall continue as an obligation of the Borrower until the amount in default shall have been fully paid, and the Borrower agrees to pay the same with interest thereon, which interest shall also constitute an obligation of the Borrower, at the same rate as borne by the Bonds. In no event shall any interest payable under the Loan Agreement exceed the maximum rate permitted by applicable law.
- (j) All Payments to be made by the Borrower under the Loan Agreement shall be made solely from Revenues.

Advance Payments.

The Borrower shall have the option from time to time in conjunction with the optional redemption of the Bonds pursuant to Section 3.01 of the Indenture to pay to the Trustee in advance of the time required by the Loan Agreement and the MPS Note for deposit in the Bond Fund for credit to the Redemption Account therein such amounts as the Borrower may elect in order to effect the prepayment of the MPS Note in whole or in part.

Pledge of Revenues; Permitted Future Pledge of Revenues; State Aid.

To secure its obligation to make the Loan Payments and the Swap Payments when due and payable from time to time in accordance with the Loan Agreement, the MPS Note and each Qualified Swap Agreement, the Borrower pledges, assigns, hypothecates and transfers to the Authority and each Qualified Swap Provider, on a pari passu basis, all of the Borrower's right, title and interest in and to the Revenues and all other moneys, rights and properties held by the Trustee or other depository under the Indenture, and grants to the Authority and each Qualified Swap Provider, on a pari passu basis, a lien on and security interest in the Borrower's right, title and interest in and to the Revenues and all other moneys, rights and properties held by the Trustee or other depository under the Indenture.

The Borrower agrees that it will not grant or permit to exist any other lien on or security interest in the Revenues which is senior to or on a parity with the security interest and lien in the Revenues granted to the Authority and the Qualified Swap Provider above other than (a) the existing lien on and security interest in the School Operations Fund and State Aid securing the payment of the \$150,000,000 City of Milwaukee Short-Term School Order Notes, 2003 Series M5, (b) a lien on and security interest in the School Operations Fund and State Aid securing the payment of any Parity Debt and (c) a lien on and security interest in the Revenues securing the obligations of the Borrower related to or arising in connection with the issuance of Additional Bonds under the Indenture. The Borrower further agrees that it will not grant or permit to exist any lien on or security interest in the Revenues or any fund or account held by the Trustee under the Indenture to secure the obligation of the Borrower to make any Termination Payment to any Swap Provider.

The Borrower agrees to do all things necessary to remain eligible to receive State Aid. Pursuant to the DPI Agreement, the Borrower directs the Department of Public Instruction to cause State Aid which the Borrower is entitled to receive to the Trustee under the circumstances, at the times and in the amounts set forth in the DPI Agreement. At such time as the Loan Payments and the Swap Payments have been paid in full in any Fiscal Year, any remaining State Aid paid during such Fiscal Year shall not be subject to the pledge set forth in subsection (a) above.

Parity Debt.

The Borrower may grant a lien on and security interest in the School Operations Fund and in State Aid, on a parity with the lien thereon and security interest therein granted to the Authority and the Qualified Swap Provider in Section 4.7(a) of the Loan Agreement, and the City may, on behalf of the Borrower, issue obligations ("Parity Debt"), including without

limitation Short-Term School Order Notes, in any year and in any principal amount, only upon fulfillment of the following conditions:

(a) prior to the issuance of any obligation which is to be Parity Debt the City shall have received (and provided a copy to the Trustee) written evidence from each rating agency which has an outstanding rating on the Bonds that the rating for the Bonds which are not Insured Bonds will not be lowered or withdrawn as a result of the issuance of such Parity Debt; and

(b) the Borrower has appropriated an amount sufficient to pay the Payments and the Swap Payments in accordance with the terms and provisions of this Loan Agreement during the Fiscal Year in which such Parity Debt is issued.

If the Borrower has not made appropriations sufficient to satisfy the condition in clause (b) above, any lien on or security interest in the School Operations Fund and State Aid shall be junior and subordinate to the lien thereon and security interest therein granted to the Authority and the Qualified Swap Provider in Section 4.7(a) of the Loan Agreement.

LOAN DEFAULT AND REMEDIES

The following shall each be a Loan Default Event under the Loan Agreement:

(a) Failure by the Borrower to pay or cause to be paid, when due and payable, any installment of Loan Payments resulting in an Event of Default under Section 10.01(a) or (b) of the Indenture, the continuance of such failure to pay or cause to be paid for three (3) Business Days.

(b) Failure by the Borrower to pay or cause to be paid, when due and payable, any Additional Payments and the continuance of such failure for a period of thirty (30) days after written notice thereof shall have been given to the Borrower by the Authority or the Trustee provided, however, that failure to pay a Termination Payment shall not constitute a Loan Default Event under the Loan Agreement.

(c) Failure by the Borrower to observe and perform any covenant, condition or agreement in the Loan Agreement or the MPS Note on its part to be observed or performed, other than as referred to in subsections (a) or (b) above, for a period of sixty (60) days after written notice by the Authority or the Trustee, specifying such failure and requesting that it be remedied, is given to the Borrower, unless the Trustee (with any required consent of Bondholders under the provisions of the Indenture) shall agree in writing to an extension of such time prior to its expiration; provided that if any such failure shall be such that it cannot be cured or corrected within such sixty (60) day period, it shall not constitute a Loan Default Event if curative or corrective action is instituted within such period and diligently pursued until the failure of performance is cured or corrected.

(d) The occurrence of an Event of Default as defined in Section 10.01 of the Indenture.

In the event any Bonds shall at the time be Outstanding and unpaid and payment thereof, or provision for payment thereof in accordance with Section 13.01 of the Indenture, shall not have been made in accordance with the provisions of the Indenture or any Swap Payment is due and unpaid, whenever any Loan Default Event referred to in Section 6.1 of the Loan Agreement shall have happened and be subsisting, the Trustee with the consent of or at the direction of the Bond Insurer may take any one or more of the following remedial steps:

(a) The Trustee may, with the consent of the Bond Insurer and (i) at the direction of the Bond Insurer or (ii) upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Bonds then Outstanding (calculated in accordance with the Indenture) with consent of the Bond Insurer, shall, by notice in writing delivered to the City and the Borrower with copies of such notice being sent to the Authority, declare all payments payable under Section 4.3 of the Loan Agreement and the MPS Note for the remainder of the term of the Loan Agreement to be immediately due and payable, whereupon the same shall become immediately due and payable.

(b) Notwithstanding the preceding paragraph (a), the Authority whenever any loan Default Event referred to in Section 6.1 of the Loan Agreement shall have happened and be subsisting, then, or at any time thereafter, may with the consent of the Bond Insurer give notice to the City and the Borrower declaring all unpaid amounts on the MPS Note, together with all other unpaid amounts outstanding under the Loan Agreement, to be immediately due and payable, and thereupon, without further notice or demand, all such amounts shall become and be immediately due and payable.

(c) The Trustee may take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the City under the Loan Agreement or the MPS Note, whether for specific performance of any covenant or agreement contained in the Loan Agreement or the MPS Note or in aid of the execution of any power granted in the Loan Agreement.

Any amounts collected pursuant to action taken under this Section shall be paid into the Bond Fund and applied in accordance with the provisions of the Indenture.

Notwithstanding the foregoing, if, at any time after the payments under the Loan Agreement shall have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such Loan Default Event, or before the completion of the enforcement of any other remedy under the Loan Agreement, moneys shall have accumulated in the Bond Fund established under Section 7.01 of the Indenture sufficient to pay the principal (or redemption price) of all matured Bonds and all Bonds (or portions of the principal (or redemption price) thereof) then or theretofore required to be redeemed pursuant to any provisions of the Indenture and all arrears of interest and interest then due, if any, upon Bonds then Outstanding and if the fees, compensation, expenses, disbursements, advances and liabilities of the Trustee and all other amounts then payable by Borrower under the Loan Agreement and the Note (excluding the principal (or redemption price) and interest not then due except by reason of the aforesaid declaration) shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee, and every other Loan

Default Event known to the Trustee in the observance or performance of any covenant, condition or agreement contained in the Loan Agreement or in the Bonds or in the Indenture (other than default in the payment of the principal (or redemption price) of and interest on such Bonds then due only because of a declaration of acceleration under this Section) shall have been remedied to the satisfaction of the Trustee, or the Borrower shall be taking, or shall be causing to be taken, appropriate action in good faith to effect its cure, then and in every such case the Trustee may with the consent of the Bond Insurer , and upon the written request or direction of the Owners of not less than a majority in principal amount of the Bonds (determined in accordance with the provisions of Section 11.03 of the Indenture) not then due by their terms (other than because of a declaration under this Section) and then Outstanding and the Bond Insurer shall, by written notice to the Authority, rescind and annul such declaration and its consequences. No such rescission or annulment pursuant to the next preceding sentence shall extend to or affect any subsequent default or impair any right consequent thereto.

AMENDMENTS AND SUPPLEMENTS

Except as expressly provided in the Loan Agreement, the Loan Agreement may be amended only in accordance with the Indenture. See “THE TRUST INDENTURE – AMENDING AND SUPPLEMENTING THE LOAN AGREEMENT.”

Notwithstanding the foregoing, any amendment, change, modification, alteration or termination of the Loan Agreement that adversely affects the interests of any Qualified Swap Provider shall not be effective without the prior written consent of such Swap Provider.

THE NOTE RESOLUTION

The Note Resolution contains various covenants and security provisions, some of which are summarized below. Whenever particular provisions of the Note Resolution are referred to, such provisions are incorporated by reference as part of the statements made, and the statements made are qualified in their entirety by such reference. Reference is made to the Note Resolution for a full and complete statement of its provisions.

APPROVAL OF NOTES

The City of Milwaukee (the “City”) has approved the issuance, sale and delivery of not to exceed One Hundred Twenty-Five Million Dollars (\$125,000,000) of the City Taxable General Obligation Promissory Notes, 2003 Series (the “Notes”) for school purposes consisting of paying unfunded prior service liability contributions under the Wisconsin Retirement System for the Milwaukee Public Schools Board of School Directors. The Commissioners of Public Debt are to determine if the Notes are issued as Current Interest Notes or Capital Appreciation Notes, the denominations, series and interest rates of the Notes, not to exceed 7% per annum. Such Notes shall mature in serial or term forms, in not to exceed twenty years, on the date and in each of the years and in the amounts as determined by the Commissioners of the Public Debt.

As used in the Note Resolution, “Current Interest Notes” shall mean those Notes which, by their terms, have been issued in denominations of \$5,000 principal amount or any integral multiple thereof, bear interest at regular fixed rates, payable semiannually (except that the first interest period with respect thereto may be less than six months but not more than twelve months following their date of issuance). Also, “Capital Appreciation Notes” shall mean those Notes issued in a Maturity Amount of \$5,000 or any integral multiple thereof, which by their terms accrete interest on a compounded basis payable, together with their principal amount, solely at maturity.

The Notes will be issued only in fully registered form without coupons. The principal, premium, and any interest payments on the Notes will be made by the Comptroller of the City by wire transfer to The Depository Trust Company, New York, New York (“DTC”), or its nominee, Cede & Co., as registered owner of the Notes. The City is not responsible or liable for sending transaction statements or for maintaining, supervising or reviewing records maintained by DTC, its participants or persons acting through such participants or for transmitting payments to, communicating with, notifying, or otherwise dealing with any beneficial owner of the Notes.

REPLACEMENT NOTES

In the event of revision of the Book-Entry Transfer System, the City shall issue Replacement Notes directly to the beneficial owners of the Notes other than DTC, or its nominee as directed by the registered owner of the Notes. Principal of and interest on the Replacement Notes shall be payable by check or draft mailed to each owner of such Replacement Notes at the address of such owner as it appears in the books of registry maintained by the Comptroller of the City.

REDEMPTION

The Notes are not subject to optional redemption prior to their respective maturities. Notes issued in term form shall be subject to mandatory redemption in the years and amounts as determined by the Commissioners of the Public Debt. If less than all of the Notes of a given maturity are called for redemption, the particular Note or portion of the Note shall be redeemed pro rata among the owners of said Note.

SECURITY FOR THE NOTES

A direct annual irrevocable tax shall be levied in each year that the Notes are outstanding. The irrevocable tax shall be levied upon the tax roll of the City and the proceeds of said taxes shall be used solely for paying the principal or Maturity Amount and interest on such Notes as long as any Notes of said issue remain outstanding. In the event tax levy is insufficient to pay such interest or principal when due, the City shall pay such amounts from other funds of the City, which shall be reimbursed out of the proceeds of the taxes levied when such taxes are collected.

EXECUTION AND AUTHENTICATION OF NOTES

The Mayor, Clerk of the City and Commissioners of the Public Debt shall execute the Notes on behalf of the City by facsimile signatures. The Comptroller shall manually sign the Notes on behalf of the City and have impressed or imprinted thereon the official seal of the City.

PAYMENT, EXCHANGES AND TRANSFERS OF NOTES; BOOKS OF REGISTRY

The City Comptroller shall keep or cause to be kept at its principal office, books of registry for the registration, exchange and transfer of the Notes. The Notes shall be paid in the following manner:

- (1) Fully Registered Form: The interest on the Notes shall be payable by check or draft mailed by the Comptroller of the City to the registered owners of the Notes at their addresses as they appear on the books of registry as of the 15th day of the month preceding such interest payment date and the principal of and premium, if any, on the Notes shall be payable at the principal office of the Comptroller of the City.
- (2) Book-Entry Form: The principal of and premium, if any, and interest on the Notes shall be paid in accordance with the Sections entitled "Approval of the Notes".
- (3) Currency: The Principal of and premium, if any, and interest on the Notes shall be paid in United States coin or currency.

CUSIP IDENTIFICATION NUMBERS AND ISIN NUMBERS

CUSIP identification numbers and ISIN numbers may be printed on the Notes, however, failure to print such numbers on the Notes or errors or omissions with respect thereto,

shall not be cause for failure or refusal of the successful bidder to accept delivery of and pay for the Notes in accordance with their terms. "ISIN" number shall mean the unique number assigned to each Note traded within the Euroclear System and Clearstream Luxembourg, from and after the date upon which such trading commences.

NOTE SALE

The Notes shall be sold at negotiated sale at a price of not less than ninety-eight percent (98%) of the principal amount thereof. The Commissioners of the Public Debt are authorized to negotiate with Lehman Brothers, ABN AMRO Financial Services, Inc., Citigroup Global Markets Inc., Loop Capital Markets, LLC, Melvin Securities, LLC and Morgan Stanley (the "Underwriters") for the purchase of the Notes on the terms most advantageous to the City and the Milwaukee Public Schools.

The appropriate officers of the City are authorized and directed to execute and deliver to the Underwriters a Note Purchase Agreement in the form presented and filed with the minutes of the meeting at which the Note Resolution is being adopted. The Comptroller and other City officers are also authorized to prepare and disseminate a Preliminary Official Statement, an Official Statement and Continuing Disclosure Certificate in connection with the issuance and sale of the Notes.

APPLICATION OF PROCEEDS OF SALE OF THE NOTES

Note Proceeds shall be applied as follows:

- (1) accrued interest received on the Notes, if any, from their date to the date of delivery of and payment for the Notes shall be applied to the payment of interest on the Notes on the first interest payment date, and
- (2) the balance shall be applied to pay unfunded prior service liability contributions under the Wisconsin Retirement System for Milwaukee Public Schools Board of School Directors and to pay the cost of issuance.

SUMMARY OF DPI AGREEMENT

The following, in addition to information contained elsewhere in this Official Statement, summarizes certain provisions of the DPI Agreement to be entered into by and among DOA, DPI, the Authority, MPS and the Trustee, to which reference is made for a full and complete statement of the provisions thereof. This summary is not intended to be definitive and is qualified in its entirety by the above reference to the Agreement.

REMITTANCE OF STATE AID PAYMENTS

By the DPI Agreement, DPI irrevocably instructs DOA to remit from time to time State Aid payments, which MPS is entitled to receive, directly to the Trustee. The State Aid payments are for the account of the Authority as the issuer of the Bonds and Additional Bonds, to repay the Loans, provided DOA shall make such a remittance only after receipt of a notice from the Trustee pursuant to the terms of the Agreement and each such remittance shall be in the amount specified in the applicable notice. Pursuant to 2003 Wisconsin Act 43, enacted August 11, 2003 (the “Act”), DPI shall ensure that the remittance of State Aid does not affect the amount determined to be received by MPS as State Aid under Section 121.08 of the Wisconsin Statutes for any other purpose.

PAYMENTS DATES AND AMOUNTS

State Aid is currently remitted to MPS by DOA on the 4th Monday of March, the 3rd Monday of June and September and the 1st Monday of December of each year (each “State Aid Payment Date”). DOA will notify the parties to the Agreement of any change to the State Aid Payment Date. No later than the 45th day prior to each of the State Aid Payment Dates immediately preceding the first day of each Bond Payment Period and each Additional Bond Payment Period, respectively, the Trustee shall determine the amount which is available to pay the principal of, and interest and redemption premium on the Bonds or any such Additional Bonds due for the next Bond Payment Period or Additional Bond Payment Period, respectively. If such available amount is less than the principal of, and interest and redemption premium due on the Bonds or any such Additional Bonds for the next Bond Payment Period or Additional Bond Payment Period, respectively (a “Deficiency”), the Trustee shall send written notice to DPI, DOA and MPS at least thirty (30) days prior to such State Aid Payment Date stating the amount of the Deficiency and directing that an amount of State Aid which MPS is otherwise entitled to receive be remitted to the Trustee in accordance with the payment instructions set forth in such notice.

DOA agrees, in accordance with the direction from DPI set forth above, to remit from time to time a portion of such State Aid payments equal to the Deficiency set forth in the applicable notice from the Trustee, directly to the Trustee until the Loans have been repaid in full in accordance with the Loan Agreement.

APPENDIX F
BOOK-ENTRY ONLY SYSTEM
THE DEPOSITORY TRUST COMPANY

The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2003 RACM Bonds, payment of principal, redemption premium, if any, and interest with respect to the 2003 RACM Bonds to DTC, its Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the 2003 RACM Bonds and other related transactions by and between DTC, its Participants and the Beneficial Owners is based solely on the understanding of the City and RACM of such procedures and record keeping from information provided by DTC. Accordingly, no representations can be made concerning these matters and neither DTC, its Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or its Participants, as the case may be. The City, RACM, the Trustee and the Underwriter understand that the current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and that the current "Procedures" of DTC to be followed in dealing with Participants are on file with DTC.

DTC will act as securities depository for the 2003 RACM Bonds. The 2003 RACM Bonds will be executed and delivered as fully registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be executed and delivered for each maturity date of each series of the 2003 RACM Bonds, each in the aggregate principal amount due on such maturity date, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (respectively, "NSCC", "GSCC", "MBSCC", and "EMCC", also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the 2003 RACM Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2003 RACM Bonds on DTC's records. The ownership

interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2003 RACM Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2003 RACM Bonds, except in the event that use of the book-entry system for the 2003 RACM Bonds is discontinued.

To facilitate subsequent transfers, all bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2003 RACM Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2003 RACM Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2003 RACM Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2003 RACM Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of the 2003 RACM Bonds may wish to ascertain that the nominee holding the 2003 RACM Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. The conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify a Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the 2003 RACM Bonds called for redemption or of any other action premised on such notice. Redemption of portions of a series of the 2003 RACM Bonds by RACM will reduce the outstanding principal amount of 2003 RACM Bonds of that series held by DTC. In such event, DTC will implement, through its book-entry system, a redemption by lot of interests in the 2003 RACM Bonds of that series held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants will implement a redemption of the 2003 RACM Bonds of that series for the Beneficial Owners. Any such selection of Bonds to be redeemed will not be governed by the Trust Indenture and will not be conducted by RACM or the Trustee.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2003 RACM Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2003 RACM Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest evidenced by the 2003 RACM Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the County or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee or RACM, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the 2003 RACM Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of RACM or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE 2003 RACM BONDS, THE TRUSTEE WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO HOLDERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY PARTICIPANT, OR OF ANY PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE 2003 RACM BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

NONE OF RACM, THE TRUSTEE, OR ANY UNDERWRITER HAS ANY RESPONSIBILITY OR LIABILITY FOR ANY ASPECT OF THE RECORDS RELATING TO OR PAYMENTS MADE ON ACCOUNT OF BENEFICIAL OWNERSHIP, OR FOR MAINTAINING, SUPERVISING OR REVIEWING ANY RECORDS RELATING TO BENEFICIAL OWNERSHIP OF INTERESTS IN THE 2003 RACM BONDS.

NONE OF RACM, THE TRUSTEE, OR ANY UNDERWRITER CAN GIVE AND DO NOT GIVE ANY ASSURANCES THAT DTC WILL DISTRIBUTE PAYMENTS TO DTC PARTICIPANTS OR THAT PARTICIPANTS OR OTHERS WILL DISTRIBUTE PAYMENTS WITH RESPECT TO THE 2003 RACM BONDS RECEIVED BY DTC OR ITS NOMINEES AS THE HOLDER THEREOF OR ANY REDEMPTION NOTICES OR OTHER NOTICES TO THE BENEFICIAL OWNERS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC WILL SERVICE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

This Page Has Been Intentionally Left Blank

APPENDIX G

FORM OF BOND INSURANCE POLICY

This Page Has Been Intentionally Left Blank

FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Attest:

Assistant Secretary

This Page Has Been Intentionally Left Blank

APPENDIX H
FORM OF BOND COUNSEL OPINION

This Page Has Been Intentionally Left Blank

HAWKINS, DELAFIELD & WOOD

67 Wall Street
New York, New York 10005

QUARLES & BRADY LLP

411 East Wisconsin Avenue
Milwaukee, Wisconsin 53202-4497

Commissioners
Redevelopment Authority of the
City of Milwaukee, Wisconsin
809 North Broadway, 2nd Floor
Milwaukee, Wisconsin 53202

Dear Commissioners:

**REDEVELOPMENT AUTHORITY OF THE
CITY OF MILWAUKEE, WISCONSIN
TAXABLE PENSION FUNDING BONDS,
2003 SERIES C AND 2003 SERIES D
(MILWAUKEE PUBLIC SCHOOLS)**

At your request we have examined the validity of \$146,569,121.70 aggregate principal amount of bonds consisting of \$15,719,121.70 Taxable Pension Funding Bonds, 2003 Series C (Milwaukee Public Schools) (the “Series C Bonds”) and \$130,850,000 Taxable Pension Funding Bonds, 2003 Series D (Milwaukee Public Schools) (the “Series D Bonds”) of the Redevelopment Authority of the City of Milwaukee, Wisconsin (the “Authority”) (the Series C Bonds and Series D Bonds being sometimes referred to collectively herein as the “Bonds”). The Bonds are dated as of their date of issuance and are issuable as fully registered Bonds.

The Series C Bonds mature on April 1 in each of the years and in the maturity amounts set forth below, are issuable in principal amounts per \$5,000 maturity amounts set forth below, and integral multiples thereof, and bear interest compounded April 1, 2004 and semi-annually on October 1 and April 1 in each year thereafter, payable at maturity as follows:

<u>Year</u>	<u>Principal Amount</u>	<u>Maturity Amount</u>
2026	\$ 388,094.05	\$ 1,535,000.00
2027	404,357.80	1,705,000.00
2028	692,807.15	3,115,000.00
2029	815,391.40	3,910,000.00
2030	825,987.50	4,225,000.00
2031	1,021,563.00	5,575,000.00
2032	1,027,684.35	5,985,000.00
2033	1,173,619.60	7,295,000.00
2034	1,176,967.00	7,810,000.00
2035	1,280,845.50	9,075,000.00
2036	1,318,296.00	9,975,000.00
2037	1,323,292.35	10,695,000.00
2038	1,378,139.00	11,900,000.00
2039	1,373,716.50	12,675,000.00
2040	1,404,528.50	13,850,000.00
2041	113,832.00	1,200,000.00

The Series D Bonds mature on October 1, 2043 in denominations of \$25,000, and integral multiples thereof, bear interest at a variable rate until such time as the Series D Bonds are converted to a fixed rate, payable from time to time, all as provided in the Series D Bonds and in the Trust Indenture (as defined herein). The Series D Bonds are subject to mandatory sinking fund redemption in the years and amounts as follows:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2024	\$6,250,000.00	2034	\$6,250,000.00
2025	6,325,000.00	2035	6,250,000.00
2026	6,250,000.00	2036	6,250,000.00
2027	6,250,000.00	2037	6,200,000.00
2028	6,250,000.00	2038	6,200,000.00
2029	6,250,000.00	2039	6,200,000.00
2030	6,250,000.00	2040	6,200,000.00
2031	6,250,000.00	2041	6,200,000.00
2032	6,250,000.00	2042	6,200,000.00
2033	6,250,000.00	2043	6,200,000.00

There is an additional sinking fund payment on October 1, 2043 in the amount of \$6,125,000.

The Series C Bonds are not subject to optional redemption prior to maturity. The Series D Bonds are subject to optional redemption prior to redemption upon the terms and conditions set forth therein.

The Bonds recite that they are issued under, pursuant to and in full compliance with the Constitution and statutes of the State of Wisconsin, including particularly Section

66.1333, Wisconsin Statutes, as amended, including amendments set forth in 2003 Wisconsin Act 43, enacted August 11, 2003 and a Trust Indenture, dated as of December 1, 2003 (the "Trust Indenture"), by and between the Authority and Deutsche Bank National Trust Company, as trustee (the "Trustee").

We have examined the Constitution and statutes of the State of Wisconsin, executed or certified copies of the Trust Indenture, a specimen Bond, the Loan Agreement, dated as of December 1, 2003 (the "Loan Agreement"), by and among the Authority, the Milwaukee Board of School Directors (the "Board") and the City of Milwaukee, Wisconsin (the "City"), the Note of the City approved by the Board (the "Note"), dated December 23, 2003, evidencing the obligation of the City on behalf of the Board to make its payments under the Loan Agreement, and a certified transcript of proceedings relating to the authorization and issuance of the Bonds, and such other instruments and documents as we have deemed necessary and advisable. We have relied upon such transcript as to the matters of fact stated therein, without independent verification.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and we express no opinion relating thereto.

In our opinion:

1. The Bonds have been duly authorized and issued in accordance with the Constitution and statutes of the State of Wisconsin and the Trust Indenture, and constitute valid special limited obligations of the Authority payable solely from, and secured equally and ratably solely by, the Trust Estate as defined in the Trust Indenture.

2. The Trust Indenture and the Loan Agreement have each been duly authorized, executed and delivered by the Authority and (assuming due authorization, execution and delivery in the case of the Trust Indenture by the Trustee) constitute valid instruments of the Authority in accordance with the respective terms thereof, and the Bonds are entitled to the security and benefits of the Trust Indenture.

3. Under the existing laws of the State of Wisconsin, interest on the Bonds is exempt from present State of Wisconsin income taxes.

4. Interest is not excluded from gross income for federal income tax purposes.

We express no opinion regarding any federal or other State of Wisconsin tax consequences with respect to the Bonds. We have rendered this opinion under existing statutes and court decisions as of the issue date, and assume no obligation to update this opinion after the issue date to reflect any future action, fact or circumstances, or change in law or interpretation, or otherwise.

It is to be understood that the rights of the parties under the Trust Indenture and the Loan Agreement and of the holders of the Bonds under the Bonds and under the Trust Indenture, and the enforceability of the Trust Indenture, the Loan Agreement or the Bonds, may

be subject to the exercise of judicial discretion, to the sovereign police powers of the State of Wisconsin, and to valid bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights.

Very truly yours,

APPENDIX I

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Page Has Been Intentionally Left Blank

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Certificate”) dated as of December 23, 2003 is executed and delivered in connection with the issuance of the principal amount of \$146,569,121.70 Taxable Pension Funding Bonds, 2003 Series C and D (the “Bonds”) of the Redevelopment Authority of the City of Milwaukee, Wisconsin (the “Authority”) issued on behalf and for the benefit of the Milwaukee Board of School Directors (“MPS”) and pursuant to a resolution duly adopted by MPS on November 25, 2003 (the “Resolution”). Capitalized terms used in this Certificate shall have the respective meanings specified above or in Article I hereof. Pursuant to the Resolution, the City and MPS agree as follows:

ARTICLE I **Definitions**

Section 1.1. **Definitions.** The following terms used in this Certificate shall have the following respective meanings:

(1) “Annual Financial Information” means, collectively, (i) the financial information and operating data with respect to the Milwaukee Public Schools for each fiscal year and “Appendix B to the Official Statement,” and (ii) information regarding amendments to this Certificate required pursuant to Sections 4.2(c) and (d) of this Certificate. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

The descriptions contained in clause (i) above of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. Where such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information. Any Annual Financial Information containing financial operation or operating data shall explain, in narrative form, the reasons for the modification and the impact of the modification on the type of financial information of operating data being provided.

(2) “Audited Financial Statements” means the annual financial statements, if any, of the Milwaukee Public Schools, audited by such auditor as shall then be required or permitted by State law. Audited Financial Statements shall be prepared in accordance with GAAP for governmental units as prescribed by GASB; provided, however, that the Milwaukee Public Schools may from time to time, if required by federal or State legal requirements, modify the basis upon which its financial statements are prepared. Notice of any such modification shall be provided to each NRMSIR and the SID, and shall include a reference to the specific federal or State law or regulation describing such accounting basis.

(3) “Counsel” means a nationally recognized bond counsel or counsel expert in federal securities laws, acceptable to the City.

(4) “GAAP” means generally accepted accounting principles for governmental units as prescribed by the Governmental Accounting Standards Board.

(5) “Material Event” means any of the following events with respect to the Bonds, whether relating to the City or otherwise, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the security;
- (vii) modifications to rights of securityholders;
- (viii) bond calls;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the securities; and
- (xi) rating changes.

(6) “Material Event Notice” means notice of a Material Event.

(7) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to the provisions of Section 15B(b)(1) of the Securities Exchange Act of 1934.

(8) “NRMSIR” means, at any time, a then-existing nationally recognized municipal securities information repository, as recognized from time to time by the SEC for the purposes referred to in the Rule. The NRMSIRs as of the date of this Certificate are Bloomberg Municipal Repository, DPC Data Inc., FT Interactive Data and Standard & Poor’s J.J. Kenny Repository. Filing information relating to such NRMSIRs is set forth in Exhibit A hereto.

(9) “Official Statement” means the “final official statement” as defined in paragraph (f)(3) of the Rule and in particular the Official Statement of the Authority dated December 17, 2003.

(10) “Rule” means Rule 15c2-12 promulgated by the SEC under the Securities and Exchange Act of 1934 as amended (17 CFR Part 240, §240.15c2-12), as in effect on the date of this Certificate, including any official interpretations thereof issued either before or after the effective date of this Certificate which are applicable to this Certificate.

(11) “SEC” means the United States Securities and Exchange Commission.

(12) “SID” means, at any time, a then-existing state information depository, if any, as operated or designated as such by or on behalf of the State for the purposes referred to in the Rule. As of the date of this Certificate, there is no SID.

(13) “State” means the State of Wisconsin.

(14) “Unaudited Financial Statements” means the same as Audited Financial Statements, except the same shall not have been unaudited.

(15) “Underwriters” mean Lehman Brothers acting on behalf of the underwriters which include Citigroup Global Markets, Inc., ABN AMRO Financial Services, Inc., Loop Capital Markets, Inc., Melvin Securities, LLC and Morgan Stanley & Co., Incorporated, as purchasers of the Bonds.

ARTICLE II The Undertaking

Section 2.1. Purpose. This Certificate is being executed and delivered solely to assist the Underwriters in complying with subsection (b)(5) of the Rule.

Section 2.2. Annual Financial Information. (a) The City on behalf of MPS shall provide Annual Financial Information for MPS with respect to each fiscal year of MPS, commencing with fiscal year ending June 30, 2004, by no later than nine months after the end of the respective fiscal year, to each NRMSIR and the SID.

(b) The City on behalf of MPS shall provide, in a timely manner, notice of any failure of the City to provide the Annual Financial Information by the date specified in subsection (a) above to (i) either the MSRB or each NRMSIR, and (ii) the SID.

Section 2.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the dates required by Section 2.2(a) hereof because not available, the City on behalf of MPS shall provide Audited Financial Statements, when and if available, to each NRMSIR and the SID.

Section 2.4. Notices of Material Events. (a) If a Material Event occurs, the City on behalf of MPS shall provide, in a timely manner, a Material Event Notice to (i) either the MSRB or each NRMSIR and (ii) the SID.

(b) Upon any legal defeasance of the Bonds, the City on behalf of MPS shall provide notice of such defeasance to (i) each NRMSIR or the MSRB and (ii) the SID, which notice shall state whether the Bonds to be defeased have been defeased to maturity or to redemption and the timing of such maturity or redemption.

Section 2.5. Additional Disclosure Obligations. The City and MPS acknowledge and understand that other state and federal laws, including but not limited to the Securities Act of 1933 and SEC Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the City and MPS, and that under some circumstance compliance with this

Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the City and MPS under such laws.

Section 2.6. Additional Information. Nothing in this Certificate shall be deemed to prevent the City or MPS from disseminating any other information, using the means of dissemination set forth in this Certificate or any other means of communication, or including any other information in any Annual Financial Information or Material Event Notice, in addition to that which is required by this Certificate. If the City or MPS chooses to include any information in any Annual Financial Information or Material Event Notice in addition to that which is specifically required by this Certificate, the City and MPS shall have no obligation under this Certificate to update such information or include it in any future Annual Financial Information or Material Event Notice.

Section 2.7. No Previous Non-Compliance. The City and MPS represent that since July 3, 1995, they have not failed to comply in any material respect with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

ARTICLE III Operating Rules

Section 3.1. Reference to Other Documents. It shall be sufficient for purposes of Section 2.2 hereof if the City or MPS provides Annual Financial Information by specific reference to documents (i) either (1) provided to each NRMSIR existing at the time of such reference and the SID, or (2) filed with the SEC, or (ii) if such a document is an Official Statement, available from the MSRB.

Section 3.2. Submission of Information. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Section 3.3. Material Event Notices. Each Material Event Notice shall be so captioned and shall prominently state the title, date and CUSIP numbers of the Bonds.

Section 3.4. Transmission of Information and Notices. Unless otherwise required by law and, in the City's and MPS' sole determination, subject to technical and economic feasibility, the City and MPS shall employ such methods of information and notice transmission as shall be requested or recommended by the herein-designated recipients of MPS information and notices.

ARTICLE IV Effective Date; Termination, Amendment and Enforcement

Section 4.1. Effective Date; Termination. (a) This Agreement shall be effective upon the issuance of the Bonds.

(b) The City's and MPS' obligations under this Certificate shall terminate upon legal defeasance, prior redemption or payment in full of all of the Bonds.

(c) This Certificate or any provision hereof, shall be null and void in the event that the City or MPS (1) delivers to the City or MPS an opinion of Counsel, addressed to the City or MPS, to the effect that those portions of the Rule which require the provisions of this Certificate or any of such provisions, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to each NRMSIR and the SID.

Section 4.2. Amendment.

(a) This Certificate may be amended, by written certificate of the Comptroller and Superintendent of MPS, without the consent of the holders of the Bonds if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the City or MPS or the type of business conducted thereby, (2) this Certificate as so amended would have complied with the requirements of the Rule as of the date of this Certificate, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the City or MPS shall have received an opinion of Counsel addressed to the City and MPS, to the same effect as set forth in clause (2) above and further to the effect that the amendment does not materially impair the interests of the holders of the Bonds and (4) the City or MPS delivers copies of such opinion and amendment to each NRMSIR and the SID.

(b) In addition to subsection (a) above, this Certificate may be amended and any provision of this Certificate may be waived, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date hereof which is applicable to this Certificate; (2) the City or MPS shall have received an opinion of Counsel to the effect that performance by the City or MPS under this Certificate as so amended or giving effect to such waiver, as the case may be, will not result in a violation of the Rule; and (3) the City or MPS shall have delivered copies of such opinion and amendment to each NRMSIR and the SID.

(c) To the extent any amendment to this Certificate results in a change in the types of financial information or operating data provided pursuant to this Certificate, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(d) If an amendment is made to the accounting principles to be followed in preparing financial statements, the Annual Financial Information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial

information. Notice of any such amendment shall be provided by the City or MPS to (i) either the MSRB or each NRMSIR and (ii) the SID.

Section 4.3. Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Certificate shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Bonds. Beneficial owners of Bonds shall be third-party beneficiaries of this Certificate. The provisions of this Agreement shall create no rights in any person or entity except as provided in this subsection (a) and subsection (b) of this Section.

(b) The obligations of the City and MPS to comply with the provisions of this Certificate shall be enforceable by the holders of the Bonds, including beneficial owners thereof. The Bond holders' rights to enforce the provisions of this Certificate shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the City's and MPS' obligations under this Certificate and the Resolution. In consideration of the third-party beneficiary status of beneficial owners of Bonds pursuant to subsection (a) of this Section, beneficial owners of Bonds shall be deemed to be holders of Bonds for purposes of this subsection (b).

(c) Any failure by the City or MPS to perform in accordance with this Certificate shall not constitute a default under the Resolution and any rights and remedies provided by the Resolution upon the occurrence of a default shall not apply to any such failure.

(d) This Certificate shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Certificate shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Certificate addresses matters of federal securities laws, including the Rule, this Certificate shall be construed in accordance with such federal securities laws and official interpretations thereof.

IN WITNESS WHEREOF, we have hereunto executed this Certificate this 23rd day of December, 2003.

CITY OF MILWAUKEE, WISCONSIN

By: _____
Comptroller

MILWAUKEE BOARD OF SCHOOL
DIRECTORS

By: _____
Superintendent

EXHIBIT A
to Continuing Disclosure Certificate

Filing information relating to the Nationally Recognized Municipal Securities Information Repositories approved by the Securities and Exchange Commission (subject to change):

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, NJ 08558
Telephone: (609) 279-3225
Facsimile: (609) 279-5962
[http://www.bloomberg.com/markets/
muni_contactinfo.html](http://www.bloomberg.com/markets/muni_contactinfo.html)
E-mail: munis@bloomberg.com

FT Interactive Data
Attn: NRMSIR
100 William Street
New York, NY 10038
Telephone: (212) 771-6999
Facsimile: (212) 771-7390
(Secondary Market Information)
(212) 771-7391
(Primary Market Information)

<http://www.interactivedata.com>
E-mail: nrmsir@ftid.com

DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
Internet address: nrmsir@dpcdata.com
Telephone: (201) 346-0701
Facsimile: (201) 947-0107
<http://dpcdata.com>
E-mail: nrmsir@dpcdata.com

Standard & Poor's J.J. Kenny Repository
55 Water Street, 45th Floor
New York, NY 10041
Telephone: (212) 438-4595
Facsimile: (212) 438-3975
[www.jjkenny.com/jjkenny/pser_descrip_
data_rep.html](http://www.jjkenny.com/jjkenny/pser_descrip_data_rep.html)
E-mail: nrmsir_repository@sandp.com

This Page Has Been Intentionally Left Blank

APPENDIX J

AUCTION AND SETTLEMENT PROCEDURES

Section 1. Definitions. Capitalized terms used in this APPENDIX J and not otherwise defined shall have the meanings given to such terms in APPENDIX E—"DEFINITIONS OF CERTAIN TERMS AND SUMMARIES OF THE PRINCIPAL BOND DOCUMENTS.

"Authorized Broker-Dealer" means the Broker-Dealer listed on the applicable exhibit to the Auction Agent Agreement or any successor(s) or addition(s) thereto.

"Available Auction Rate Securities" has the meaning set forth in Section 2(c)(i)(A) hereof.

"Bid" has the meaning set forth in Section 2(a)(i)(B) hereof.

"Bidder" has the meaning set forth in Section 2(a)(i)(B) hereof.

"Buyer's Broker-Dealer" has the meaning set forth in Section 3(a) hereof.

"Hold Order" has the meaning set forth in Section 2(a)(i)(B) hereof.

"Order" has the meaning set forth in Section 2(a)(i)(B) hereof.

"Sell Order" has the meaning set forth in Section 2(a)(i)(B) hereof.

"Seller's Broker-Dealer" has the meaning set forth in Section 3(a) hereof.

"Submission Deadline" has the meaning set forth in Section 2(a)(i) hereof.

"Submitted Bid" has the meaning set forth in Section 2(c)(i) hereof.

"Submitted Hold Order" has the meaning set forth in Section 2(c)(i) hereof.

"Submitted Order" has the meaning set forth in Section 2(c)(i) hereof.

"Submitted Sell Order" has the meaning set forth in Section 2(c)(i) hereof.

"Sufficient Clearing Bids" has the meaning set forth in Section 2(c)(i) hereof.

"Winning Bid Rate" has the meaning set forth in Section 2(c)(i)(C) hereof.

Section 2. Auction Procedures. So long as the ownership of the Auction Rate Securities is maintained in book-entry form by the Securities Depository, an Existing Owner may sell, transfer or otherwise dispose of Auction Rate Securities only pursuant to a Bid or Sell Order placed in an Auction or through the Authorized Broker-Dealer, provided that, in the case of all transfers other than pursuant to Auctions of the Auction Rate Securities, such Existing Owner, its Authorized Broker-Dealer or its Participant advises the Auction Agent of such transfer. Subject to the provisions of Section 5.05 of the Trust Indenture, Auctions of the Auction Rate Securities shall be conducted on each Auction Date, if there is an Auction Agent on such Auction Date, in the following manner:

(a) (i) Prior to 1:00 p.m., New York City time on each Auction Date relating to Auction Rate Securities or such other time on any Auction Date by which Broker-Dealers are required to submit orders to the Auction Agent, as specified by the Auction Agent from time to time (the "Submission Deadline");

(A) each Beneficial Owner of Auction Rate Securities may submit to the Broker-Dealer by telephone or facsimile transmission any information as to:

(I) the principal amount of Outstanding Auction Rate Securities, if any, held by such Beneficial Owner which such Beneficial Owner desires to continue to hold without regard to the Auction Rate for the next succeeding Auction Rate Period;

(II) the principal amount of Outstanding Auction Rate Securities, if any, which such Existing Owner offers to sell, if the Auction Rate for the next succeeding Auction Rate Period shall be less than the rate per annum specified by such Beneficial Owner; and/or

(III) the principal amount of Outstanding Auction Rate Securities, if any, held by such Beneficial Owner which such Beneficial Owner offers to sell, without regard to the Auction Rate for the next succeeding Auction Rate Period; and

(B) the Authorized Broker-Dealer may contact Potential Beneficial Owners to determine the principal amount of Auction Rate Securities which each Potential Beneficial Owner offers to purchase, if the Auction Rate for the next succeeding Auction Rate Period shall not be less than the rate per annum specified by such Potential Beneficial Owner.

The communication to a Broker-Dealer by a Beneficial Owner or a Potential Beneficial Owner referred to in (A) or (B) of this paragraph (i) is hereinafter referred to as an "Order," and each Beneficial Owner and each Potential Beneficial Owner placing an Order is hereinafter referred to as a "Bidder;" an Order containing the information described in clause (A)(I) is hereinafter referred to as a "Hold Order;" an Order containing the information described in clause (A)(II) or (B) is hereinafter referred to as a "Bid;" and an Order containing the information described in clause (A)(III) is hereinafter referred to as a "Sell Order." The submission by a Broker-Dealer of an Order to the Auction Agent shall likewise be referred to herein as an "Order," and an Existing Owner or Potential Owner who places an Order with the Auction Agent or on whose behalf an Order is placed with the Auction Agent shall likewise be referred to herein as a "Bidder."

(ii) (A) Subject to the provisions of Section 2(b) hereof, a Bid by an Beneficial Owner or an Existing Owner shall constitute an irrevocable offer to sell:

(I) the principal amount of Outstanding Auction Rate Securities specified in such Bid if the Auction Rate determined as provided herein shall be less than the rate specified in such Bid; or

(II) such principal amount or a lesser principal amount of Outstanding Auction Rate Securities to be determined as set forth in Section 2(d)(i)(D), if the Auction Rate determined as provided herein shall be equal to the rate specified in such Bid; or

(III) such principal amount of Outstanding Auction Rate Securities if the rate specified in such Bid shall be higher than the Maximum Auction Rate or such principal amount or a lesser principal amount of Outstanding Auction Rate Securities to be determined as set forth in Section 2(d)(ii)(C) if the Auction Rate as specified therein shall be higher than the Maximum Auction Rate and Sufficient Clearing Bids do not exist.

(B) Subject to the provisions of Section 2(b) hereof, a Sell Order by a Beneficial Owner shall constitute an irrevocable offer to sell:

(I) the principal amount of Outstanding Auction Rate Securities specified in such Sell Order if Sufficient Clearing Bids exist; or

(II) such principal amount or a lesser principal amount of Outstanding Auction Rate Securities set forth in Section 2(a)(ii)(C), if Sufficient Clearing Bids do not exist.

(C) Subject to the provisions of Section 2(b) hereof, a Bid by a Potential Beneficial Owner or Potential Owner shall constitute an irrevocable offer to purchase:

(I) the principal amount of Outstanding Auction Rate Securities specified in such Bid if the Auction Rate determined as provided herein shall be higher than the rate specified in such Bid; or

(II) such principal amount or a lesser principal amount of outstanding Auction Rate Securities set forth in Section 2(d)(i)(E), if the Auction Rate determined as provided herein shall be equal to the rate specified in such Bid.

(b) (i) Each Authorized Broker-Dealer shall submit in writing to the Auction Agent prior to the Submission Deadline on each Auction Date all Orders obtained by such Broker-Dealer designating itself (unless otherwise permitted by RACM at the direction of the City) as an Existing Owner in respect of the principal amount of Auction Rate Securities subject to Orders submitted or deemed submitted to it by Beneficial Owners or by Potential Beneficial Owners, and shall specify with respect to each such Order:

(A) the name of the Bidder placing such Order (which shall be the Authorized Broker-Dealer, unless otherwise permitted by RACM at the direction of the City);

(B) the aggregate principal amount of Auction Rate Securities that are the subject of such Order;

(C) to the extent that such Bidder is an Existing Owner:

(I) the principal amount of Auction Rate Securities, if any, subject to any Hold Order placed by such Existing Owner;

(II) the principal amount of Auction Rate Securities, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(III) the principal amount of Auction Rate Securities, if any, subject to any Sell Order placed by such Existing Owner; and

(D) to the extent such Bidder is a Potential Owner, the rate specified in such Potential Owner's Bid.

(ii) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next higher one thousandth (.001) of 1%.

(iii) If an Order or Orders covering all Outstanding Auction Rate Securities held by an Existing Owner is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of Outstanding Auction Rate Securities held by such Existing Owner and not subject to an Order submitted to the Auction Agent.

(iv) None of RACM, the Trustee nor the Auction Agent shall be responsible for any failure of an Authorized Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner, Beneficial Owner, Potential Owner or Potential Beneficial Owner, nor

shall any such party be responsible for failure by any Securities Depository to effect any transfer or to provide the Auction Agent with current information regarding registration of transfers.

(v) If any Existing Owner submits to the Auction Agent, through an Authorized Broker-Dealer, one or more Orders covering in the aggregate more than the principal amount of Outstanding Auction Rate Securities held by such Existing Owner, such Orders shall be considered valid as follows and in the following order of priority:

(A) All Hold Orders shall be considered valid, but only up to and including in the aggregate the principal amount of outstanding Auction Rate Securities held by such Existing Owner, and if the aggregate principal amount of Outstanding Auction Rate Securities subject to such Hold Orders exceeds the aggregate principal amount of Auction Rate Securities held by such Existing Owner, the aggregate principal amount of Auction Rate Securities subject to each such Hold Order shall be reduced *pro rata* to cover the aggregate principal amount of outstanding Auction Rate Securities held by such Existing Owner.

(B) (I) any Bid shall be considered valid up to and including the excess of the principal amount of Outstanding Auction Rate Securities held by such Existing Owner over the aggregate principal amount of Auction Rate Securities subject to any Hold Order referred to in Section (v)(A) above;

(II) subject to subsection (v)(B)(I) above, if more than one Bid with the same rate is submitted on behalf of such Existing Owner and the aggregate principal amount of Outstanding Auction Rate Securities subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the amount of such excess, and the principal amount of Auction Rate Securities subject to each Bid with the same rate shall be reduced *pro rata* to cover the principal amount of Auction Rate Securities equal to such excess;

(III) subject to subsections (v)(B)(I) and (v)(B)(II) above, if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered valid first in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess; and

(IV) in any such event, the aggregate principal amount of Outstanding Auction Rate Securities, if any, subject to Bids not valid under this subsection (B) shall be treated as the subject of a Bid by a Potential Owner at the rate therein specified; and

(C) All Sell Orders shall be considered valid up to and including the excess of the principal amount of Outstanding Auction Rate Securities held by such Existing Owner over the aggregate principal amount of Auction Rate Securities subject to Hold Orders referred to in Section 2(a)(v)(A) and valid Bids referred to in Section 2(b)(v)(B).

(vi) If more than one Bid for Auction Rate Securities is submitted by or on behalf of any Potential Owner, each Bid submitted shall be a separate Bid with the rate and principal amount therein specified.

(vii) Any Bid or Sell Order submitted by an Existing Owner covering an aggregate principal amount of Auction Rate Securities not equal to \$25,000 or an integral multiple thereof shall be rejected and shall be deemed a Hold Order. Any Bid submitted by a Potential Owner covering an aggregate principal amount of Auction Rate Securities not equal to \$25,000 or an integral multiple thereof shall be rejected.

(viii) Any Bid specifying a rate higher than the Maximum Auction Rate will be treated as a Sell Order if submitted by an Existing Owner and will not be accepted if submitted by a Potential Owner. Any Bid submitted by an Existing Owner or a Potential Owner specifying a rate lower than the All-Hold Rate shall be treated as a Bid specifying the All-Hold Rate, and each such Bid shall be considered as valid and shall be selected in the ascending order of their respective rates contained in the Submitted Bids. Any Bid submitted by an Existing Owner or a Potential Owner specifying a rate lower than the Minimum Auction Rate, if any, shall be treated as a Bid specifying the Minimum Auction Rate, if any.

(c) (i) Not earlier than the Submission Deadline on each Auction Date, the Auction Agent shall assemble all valid Orders submitted or deemed submitted to it by the Authorized Broker-Dealer (each such Order as submitted or deemed submitted by the Authorized Broker-Dealer being hereinafter referred to individually as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, or as a "Submitted Order" and collectively as "Submitted Hold Orders," "Submitted Bids" or "Submitted Sell Orders") and shall determine:

(A) the excess of the total principal amount of Outstanding Auction Rate Securities over the sum of the aggregate principal amount of Outstanding Auction Rate Securities subject to Submitted Hold Orders (such excess being hereinafter referred to as the "Available Auction Rate Securities"), and

(B) from the Submitted Orders whether:

(I) the aggregate principal amount of Outstanding Auction Rate Securities subject to Submitted Bids by Potential Owners specifying one or more rates equal to or lower than the Maximum Auction Rate;

exceeds or is equal to the sum of:

(II) the aggregate principal amount of Outstanding Auction Rate Securities subject to Submitted Bids by Existing Owners specifying one or more rates higher than the Maximum Auction Rate, and

(III) the aggregate principal amount of Outstanding Auction Rate Securities subject to Submitted Sell Orders

(in the event such excess or such equality exists (other than because the sum of the principal amounts of Auction Rate Securities in subsections (B)(II) and (B)(III) above is zero because all of the Outstanding Auction Rate Securities are subject to Submitted Hold Orders), such Submitted Bid described in subsection (B)(I) above shall be referred to collectively as "Sufficient Clearing Bids"); and

(C) if Sufficient Clearing Bids exist, the lowest rate specified in such Submitted Bids (the "Winning Bid Rate") which if:

(I) (aa) each such Submitted Bid from Existing Owners specifying such lowest rate and (bb) all other Submitted Bids from Existing Owners specifying lower rates were rejected, thus entitling such Existing Owners to continue to hold the principal amount of Auction Rate Securities subject to such Submitted Bids, and

(II) (aa) each such Submitted Bid from Potential Owners specifying such lowest rate and (bb) all other Submitted Bids from Potential Owners specifying lower rates were accepted, would result in such Existing Owners described in Section (2(c)(i)(B)(I) above continuing to hold an aggregate principal amount of Outstanding Auction Rate Securities which, when added to the aggregate principal amount of Outstanding Auction Rate Securities to be

purchased by such Potential Owners described in Section 2(c)(i)(B)(II) above, would equal not less than the Available Auction Rate Securities.

(ii) Promptly after the Auction Agent has made the determinations pursuant to Section 2(c)(i) hereof, the Auction Agent, by telecopy confirmed in writing, shall advise RACM and the Trustee of the Maximum Auction Rate, the Minimum Auction Rate and the All-Hold Rate, if any, and the components thereof on the Auction Date and, based on such determinations, the Auction Rate for the next succeeding Auction Rate Period as follows:

(A) if Sufficient Clearing Bids exist, that the Auction Rate for the next succeeding Auction Rate Period shall be equal to the Winning Bid Rate so determined;

(B) if Sufficient Clearing Bids do not exist (other than because all of the Outstanding Auction Rate Securities are subject to Submitted Hold Orders), that the Auction Rate for the next succeeding Auction Rate Period shall be equal to the Maximum Auction Rate, which succeeding Auction Rate Period shall be 7 Rate Period Days; or

(C) if all Outstanding Auction Rate Securities are subject to Submitted Hold Orders, that the Auction Rate for the next succeeding Auction Rate Period shall be equal to the All-Hold Rate on such Auction Date.

(d) Existing Owners shall continue to hold the principal amount of Auction Rate Securities that are subject to Submitted Hold Orders, and, based on the determinations made pursuant to Section 2(c)(i) hereof, Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other action as set forth below:

(i) if Sufficient Clearing Bids have been made, all Submitted Sell Orders shall be accepted and, subject to the provisions of Sections 2(d)(iv) and 2(d)(v), Submitted Bids shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(A) Any Existing Owner's Submitted Bids specifying any rate that is higher than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to sell the aggregate principal amount of Auction Rate Securities subject to such Submitted Bids;

(B) Any Existing Owner's Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be rejected, thus entitling each such Existing Owner to continue to hold the aggregate principal amount of Auction Rate Securities subject to such Submitted Bids;

(C) Any Potential Owner's Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the aggregate principal amount of Auction Rate Securities subject to such Submitted Bids;

(D) Any Existing Owner's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be rejected, thus entitling such Existing Owner to continue to hold the aggregate principal amount of Auction Rate Securities subject to such Submitted Bid, unless the aggregate principal amount of Outstanding Auction Rate Securities subject to all such Submitted Bids shall be greater than the principal amount of Auction Rate Securities (the "remaining principal amount") equal to the excess of the Available Auction Rate Securities over the aggregate principal amount of Auction Rate Securities subject to Submitted Bids described in subsections (B) and (C) of this Section 2(d)(i), in which event such Submitted Bid of such Existing Owner shall be rejected in part, and such Existing Owner shall be entitled to continue to hold the principal amount of Auction Rate Securities subject to such Submitted Bid, but only in an amount equal to

the aggregate principal amount of Auction Rate Securities obtained by multiplying the remaining principal amount by a fraction, the numerator of which shall be the principal amount of Outstanding Auction Rate Securities held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the sum of the principal amount of Outstanding Auction Rate Securities subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate; and

(E) Each Potential Owner's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be accepted but only in an amount equal to the principal amount of Auction Rate Securities obtained by multiplying the excess of the aggregate principal amount of Available Auction Rate Securities over the aggregate principal amount of Auction Rate Securities subject to Submitted Bids described in subsections (B), (C) and (D) of this Section 2(d)(i) by a fraction, the numerator of which shall be the aggregate principal amount of Outstanding Auction Rate Securities subject to such Submitted Bids and the denominator of which shall be the sum of the principal amount of Outstanding Auction Rate Securities subject to Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate.

(ii) If Sufficient Clearing Bids have not been made (other than because all of the outstanding Auction Rate Securities are subject to Submitted Hold Orders), subject to the provisions of Section 2(d)(iv), Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(A) Any Existing Owner's Submitted Bids specifying any rate that is equal to or lower than the Maximum Auction Rate shall be rejected, thus entitling such Existing Owners to continue to hold the aggregate principal amount of Auction Rate Securities subject to such Submitted Bids;

(B) Any Potential Owner's Submitted Bids specifying any rate that is equal to or lower than the Maximum Auction Rate shall be accepted and any rate that is higher than the Maximum Auction Rate shall be rejected, thus requiring such Potential Owners to purchase the aggregate principal amount of Auction Rate Securities subject to such Submitted Bids; and

(C) Any Existing Owner's Submitted Bid specifying any rate that is higher than the Maximum Auction Rate and the Submitted Sell Order of each Existing Owner shall be accepted, thus entitling each Existing Owner that submitted any such Submitted Bid or Submitted Sell Order to sell the Auction Rate Securities subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of Auction Rate Securities obtained by multiplying the aggregate principal amount of Auction Rate Securities subject to Submitted Bids described in subsection (B) of this Section 2(d)(ii) by a fraction, the numerator of which shall be the aggregate principal amount of Outstanding Auction Rate Securities held by such Existing Owner subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate principal amount of Outstanding Auction Rate Securities subject to all such Submitted Bids and Submitted Sell Orders.

(iii) If all Outstanding Auction Rate Securities are subject to Submitted Hold Orders, all Submitted Bids shall be rejected.

(iv) If, as a result of the procedures described in Section 2(d)(i) or 2(d)(ii), any Existing Owner would be entitled or required to sell, or any Potential Owner would be entitled or required to purchase, a principal amount of Auction Rate Securities that is not equal to \$25,000 or any integral multiple thereof, the Auction Agent shall, in such manner as, in its sole discretion, it shall determine, round up or down the principal amount of Auction Rate Securities to be purchased or sold by any Existing Owner or Potential Owner so that the principal amount of

Auction Rate Securities purchased or sold by each Existing Owner or Potential Owner shall be equal to \$25,000 or any integral multiple thereof.

(v) If, as a result of the procedures described in Section 2(d)(ii), any Potential Owner would be entitled or required to purchase less than \$25,000 principal amount or any integral multiple thereof of Auction Rate Securities, the Auction Agent shall, in such manner as, in its sole discretion, it shall determine, allocate Auction Rate Securities for purchase among Potential Owners so that only Auction Rate Securities in \$25,000 principal amounts or any integral multiple thereof are purchased by any Potential Owner, even if such allocation results in one or more of such Potential Owners not purchasing any Auction Rate Securities.

(e) Based on the result of each Auction, and in accordance with the Settlement Procedures set forth in Section 3, the Auction Agent shall determine the aggregate principal amount of Auction Rate Securities to be purchased and the aggregate principal amount of Auction Rate Securities to be sold by Potential Owners and Existing Owners and, with respect to each Potential Owner and Existing Owner, to the extent that such aggregate principal amount of Auction Rate Securities to be sold differs from such aggregate principal amount of Auction Rate Securities to be purchased, determine to which other Potential Owner(s) or Existing Owner(s) they shall deliver, or from which other Potential Owner(s) or Existing Owner(s) they shall receive, as the case may be, Auction Rate Securities.

Section 3. Settlement Procedures.

(a) Not later than 3:00 p.m., New York City time, on each Auction Date, the Auction Agent shall notify by telephone each Authorized Broker-Dealer that participated in the Auction relating to the Auction Rate Securities held on such Auction Date and submitted an Order on behalf of an Existing Owner or Potential Owner of:

- (i) the Auction Rate fixed for the next Auction Rate Period;
- (ii) whether there were Sufficient Clearing Bids in such Auction;
- (iii) if the Authorized Broker-Dealer (a "Seller's Broker-Dealer") submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of Auction Rate Securities, if any, to be sold by such Existing Owner;
- (iv) if the Authorized Broker-Dealer (a "Buyer's Broker-Dealer") submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of Auction Rate Securities, if any, to be purchased by such Potential Owner;
- (v) if the aggregate amount of Auction Rate Securities to be sold by all Existing Owners on whose behalf such Seller's Broker-Dealer submitted a Bid or a Sell Order exceeds the aggregate principal amount of Auction Rate Securities to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Buyer's Broker-Dealer (and the name of the Participant, if any, of each such Buyer's Broker-Dealer) acting for one or more purchasers of such excess principal amount of Auction Rate Securities and the principal amount of Auction Rate Securities to be purchased from one or more Existing Owners on whose behalf such Seller's Broker-Dealer acted by one or more Potential Owners on whose behalf each of such Buyer's Broker-Dealer acted;
- (vi) if the principal amount of Auction Rate Securities to be purchased by all Potential Owners on whose behalf such Buyer's Broker-Dealer submitted a Bid exceeds the amount of Auction Rate Securities to be sold by all Existing Owners on whose behalf such Seller's Broker-Dealer submitted a Bid or a Sell Order, the name or names of one or more Seller's Broker-Dealer (and the name of the Participant, if any, of each such Seller's Broker-Dealer) acting for one or more sellers of such excess principal amount of Auction Rate Securities and the

principal amount of Auction Rate Securities to be sold to one or more Potential Owners on whose behalf such Buyer's Broker-Dealer acted by one or more Existing Owners on whose behalf each of such Seller's Broker-Dealer acted; and

(vii) the Auction Date for the next succeeding Auction.

(b) On each Auction Date, the Authorized Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall:

(i) advise each Existing Owner and Potential Owner on whose behalf such Authorized Broker-Dealer submitted a Bid or Sell Order in the Auction on such Auction Date whether such Bid or Sell Order was accepted or rejected, in whole or in part;

(ii) in the case of an Authorized Broker-Dealer that is a Buyer's Broker-Dealer, advise each Potential Owner on whose behalf such Authorized Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner's Participant to pay to such Authorized Broker-Dealer (or its Participant) through the Securities Depository the amount necessary to purchase the principal amount of Auction Rate Securities to be purchased pursuant to such Bid against receipt of such Auction Rate Securities;

(iii) in the case of an Authorized Broker-Dealer that is a Seller's Broker-Dealer, instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted, in whole or in part, or a Bid that was accepted, in whole or in part, to instruct such Existing Owner's Participant to deliver to such Authorized Broker-Dealer (or its Participant) through the Securities Depository the principal amount of Auction Rate Securities to be sold pursuant to such Order against payment therefor;

(iv) advise each Existing Owner on whose behalf such Seller's Broker-Dealer submitted an Order and each Potential Owner on whose behalf such Buyer's Broker-Dealer submitted a Bid of the Auction Rate for the next Auction Rate Period;

(v) advise each Existing Owner on whose behalf such Seller's Broker-Dealer submitted an Order of the next Auction Date; and

(vi) advise each Potential Owner on whose behalf such Buyer's Broker-Dealer submitted a Bid that was accepted, in whole or in part, of the next Auction Date.

(c) On the basis of the information provided to it pursuant to Section 3(a), an Authorized Broker-Dealer that submitted a Bid or Sell Order in an Auction is required to allocate any funds received by it in connection with such Auction pursuant to Section 3(b)(ii), and any Auction Rate Securities received by it in connection with such Auction pursuant to Section 3(b)(iii) among the Potential Owners, if any, on whose behalf such Authorized Broker-Dealer submitted Bids, the Existing Owners, if any on whose behalf such Authorized Broker-Dealer submitted Bids or Sell Orders in such Auction, and any Authorized Broker-Dealer identified to it by the Auction Agent following such Auction pursuant to Section 3(a)(v) or 3(a)(vi).

(d) On each Auction Date:

(i) each Potential Owner and Existing Owner with an Order in the Auction on such Auction Date shall instruct its Participant as provided in Section 3(b)(ii) or 3(b)(iii), as the case may be;

(ii) each Seller's Broker-Dealer that is not a Participant of the Securities Depository shall instruct its Participant to (A) pay through the Securities Depository to the Participant of the Existing Owner delivering Auction Rate Securities to such Seller's Broker-Dealer following such Auction pursuant to Section 3(b)(iii) the amount necessary to purchase such Auction Rate Securities against receipt of such Auction Rate Securities, and (B) deliver such Auction Rate Securities through the Securities Depository to a Buyer's

Broker-Dealer (or its Participant) identified to such Seller's Broker-Dealer pursuant to Section 3(a)(v) against payment therefor; and

(iii) each Buyer's Broker-Dealer that is not a Participant in the Securities Depository shall instruct its Participant to (A) pay through the Securities Depository to Seller's Broker-Dealer (or its Participant) identified following such Auction pursuant to Section 3(a)(vi) the amount necessary to purchase the Auction Rate Securities to be purchased pursuant to Section 3(b)(ii) against receipt of such Auction Rate Securities, and (B) deliver such Auction Rate Securities through the Securities Depository to the Participant of the purchaser thereof against payment therefor.

(e) On the Business Day following each Auction Date:

(i) each Participant for a Bidder in the Auction on such Auction Date referred to in Section 3(d)(i) shall instruct the Securities Depository to execute the transactions described under Section 3(b)(ii) or 3(b)(iii) for such Auction, and the Securities Depository shall execute such transactions;

(ii) each Seller's Broker-Dealer or its Participant shall instruct the Securities Depository to execute the transactions described in Section 3(d)(ii) for such Auction, and the Securities Depository shall execute such transactions; and

(iii) each Buyer's Broker-Dealer or its Participant shall instruct the Securities Depository to execute the transactions described in Section 3(d)(iii) for such Auction, and the Securities Depository shall execute such transactions.

(f) If an Existing Owner selling Auction Rate Securities in an Auction fails to deliver such Auction Rate Securities (by authorized book-entry), an Authorized Broker-Dealer may deliver to the Potential Owner on behalf of which it submitted a Bid that was accepted a principal amount of Auction Rate Securities that is less than the principal amount of Auction Rate Securities that otherwise was to be purchased by such Potential Owner. In such event, the principal amount of Auction Rate Securities to be so delivered shall be determined solely by such Authorized Broker-Dealer. Delivery of such lesser principal amount of Auction Rate Securities shall constitute good delivery. Notwithstanding the foregoing terms of this subsection, any delivery or nondelivery of Auction Rate Securities which shall represent any departure from the results of an Auction, as determined by the Auction Agent, shall be of no effect unless and until the Auction Agent shall have been notified of such delivery or nondelivery in accordance with the provisions of the Auction Agent Agreement and the Broker-Dealer Agreement.

APPENDIX K

TABLE OF ACCRETED VALUES

The Accreted Value (which includes the initial principal Denominational Amount and accreted interest thereon) per each \$5,000 Maturity Amount, as of April 1 and October 1, is set forth in the following table of Accreted Values.

Year of Maturity:	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Initial										
Denominational	1,435.90	1,347.40	1,264.15	1,185.80	1,112.05	1,042.70	977.50	916.20	858.55	804.40
Amount										
Compounding	6.25%	6.26%	6.27%	6.28%	6.29%	6.30%	6.31%	6.32%	6.33%	6.34%
Rate										
Compounding										
Date										
4/1/2004	1,460.15	1,370.20	1,285.55	1,205.90	1,130.95	1,060.45	994.20	931.85	873.25	818.20
10/1/2004	1,505.80	1,413.10	1,325.85	1,243.75	1,166.55	1,093.85	1,025.55	961.30	900.90	844.15
4/1/2005	1,552.85	1,457.35	1,367.45	1,282.85	1,203.20	1,128.35	1,057.90	991.70	929.40	870.90
10/1/2005	1,601.40	1,502.95	1,410.30	1,323.10	1,241.05	1,163.90	1,091.30	1,023.00	958.85	898.50
4/1/2006	1,651.45	1,550.00	1,454.50	1,364.65	1,280.10	1,200.55	1,125.70	1,055.35	989.20	927.00
10/1/2006	1,703.05	1,598.50	1,500.10	1,407.50	1,320.35	1,238.35	1,161.25	1,088.70	1,020.50	956.35
4/1/2007	1,756.25	1,648.55	1,547.15	1,451.70	1,361.90	1,277.35	1,197.85	1,123.10	1,052.80	986.70
10/1/2007	1,811.15	1,700.15	1,595.65	1,497.30	1,404.70	1,317.60	1,235.65	1,158.60	1,086.10	1,017.95
4/1/2008	1,867.75	1,753.35	1,645.70	1,544.30	1,448.90	1,359.10	1,274.65	1,195.20	1,120.50	1,050.25
10/1/2008	1,926.10	1,808.25	1,697.25	1,592.80	1,494.45	1,401.90	1,314.85	1,232.95	1,155.95	1,083.55
4/1/2009	1,986.30	1,864.85	1,750.50	1,642.80	1,541.45	1,446.10	1,356.35	1,271.95	1,192.55	1,117.90
10/1/2009	2,048.40	1,923.20	1,805.35	1,694.40	1,589.95	1,491.65	1,399.15	1,312.10	1,230.30	1,153.30
4/1/2010	2,112.40	1,983.40	1,861.95	1,747.60	1,639.95	1,538.60	1,443.30	1,353.60	1,269.20	1,189.90
10/1/2010	2,178.40	2,045.50	1,920.35	1,802.45	1,691.50	1,587.10	1,488.80	1,396.35	1,309.40	1,227.60
4/1/2011	2,246.50	2,109.50	1,980.55	1,859.05	1,744.70	1,637.10	1,535.80	1,440.50	1,350.85	1,266.50
10/1/2011	2,316.70	2,175.55	2,042.60	1,917.45	1,799.60	1,688.65	1,584.25	1,486.00	1,393.60	1,306.65
4/1/2012	2,389.10	2,243.65	2,106.65	1,977.65	1,856.20	1,741.85	1,634.25	1,532.95	1,437.70	1,348.10
10/1/2012	2,463.75	2,313.85	2,172.70	2,039.75	1,914.55	1,796.70	1,685.80	1,581.40	1,483.20	1,390.80
4/1/2013	2,540.75	2,386.30	2,240.80	2,103.80	1,974.80	1,853.30	1,739.00	1,631.40	1,530.15	1,434.90
10/1/2013	2,620.15	2,461.00	2,311.05	2,169.85	2,036.90	1,911.70	1,793.85	1,682.95	1,578.55	1,480.40
4/1/2014	2,702.00	2,538.00	2,383.50	2,238.00	2,100.95	1,971.90	1,850.45	1,736.10	1,628.55	1,527.35
10/1/2014	2,786.45	2,617.45	2,458.25	2,308.25	2,167.05	2,034.05	1,908.80	1,791.00	1,680.10	1,575.75
4/1/2015	2,873.50	2,699.40	2,535.30	2,380.75	2,235.20	2,098.10	1,969.05	1,847.55	1,733.25	1,625.70
10/1/2015	2,963.30	2,783.90	2,614.80	2,455.50	2,305.50	2,164.20	2,031.15	1,905.95	1,788.10	1,677.25
4/1/2016	3,055.95	2,871.00	2,696.75	2,532.60	2,378.00	2,232.35	2,095.25	1,966.20	1,844.70	1,730.40
10/1/2016	3,151.45	2,960.90	2,781.30	2,612.15	2,452.75	2,302.70	2,161.35	2,028.30	1,903.10	1,785.25
4/1/2017	3,249.90	3,053.55	2,868.50	2,694.15	2,529.90	2,375.20	2,229.55	2,092.40	1,963.35	1,841.85
10/1/2017	3,351.45	3,149.15	2,958.45	2,778.75	2,609.50	2,450.05	2,299.90	2,158.55	2,025.45	1,900.25
4/1/2018	3,456.20	3,247.70	3,051.20	2,866.00	2,691.55	2,527.20	2,372.45	2,226.75	2,089.60	1,960.50

10/1/2018	3,564.20	3,349.35	3,146.85	2,956.00	2,776.20	2,606.85	2,447.30	2,297.10	2,155.70	2,022.60
4/1/2019	3,675.60	3,454.20	3,245.50	3,048.80	2,863.50	2,688.95	2,524.50	2,369.70	2,223.95	2,086.75
10/1/2019	3,790.45	3,562.30	3,347.25	3,144.55	2,953.55	2,773.65	2,604.15	2,444.60	2,294.35	2,152.90
4/1/2020	3,908.90	3,673.80	3,452.20	3,243.30	3,046.45	2,861.00	2,686.35	2,521.85	2,366.95	2,221.15
10/1/2020	4,031.05	3,788.80	3,560.40	3,345.15	3,142.25	2,951.15	2,771.10	2,601.50	2,441.85	2,291.55
4/1/2021	4,157.05	3,907.40	3,672.05	3,450.20	3,241.10	3,044.10	2,858.50	2,683.75	2,519.15	2,364.20
10/1/2021	4,286.95	4,029.70	3,787.15	3,558.50	3,343.05	3,140.00	2,948.70	2,768.55	2,598.90	2,439.15
4/1/2022	4,420.90	4,155.85	3,905.90	3,670.25	3,448.15	3,238.90	3,041.75	2,856.05	2,681.15	2,516.45
10/1/2022	4,559.05	4,285.90	4,028.35	3,785.50	3,556.60	3,340.95	3,137.70	2,946.30	2,766.00	2,596.25
4/1/2023	4,701.55	4,420.05	4,154.60	3,904.35	3,668.45	3,446.15	3,236.70	3,039.40	2,853.55	2,678.55
10/1/2023	4,848.45	4,558.40	4,284.85	4,026.95	3,783.85	3,554.70	3,338.80	3,135.45	2,943.85	2,763.45
4/1/2024	5,000.00	4,701.10	4,419.20	4,153.40	3,902.85	3,666.70	3,444.15	3,234.50	3,037.00	2,851.05
10/1/2024	0.00	4,848.20	4,557.75	4,283.85	4,025.60	3,782.20	3,552.85	3,336.70	3,133.15	2,941.45
4/1/2025	0.00	5,000.00	4,700.60	4,418.35	4,152.20	3,901.35	3,664.90	3,442.15	3,232.30	3,034.65
10/1/2025	0.00	0.00	4,848.00	4,557.10	4,282.80	4,024.25	3,780.55	3,550.95	3,334.60	3,130.85
4/1/2026	0.00	0.00	5,000.00	4,700.15	4,417.50	4,151.00	3,899.80	3,663.15	3,440.15	3,230.10
10/1/2026	0.00	0.00	0.00	4,847.75	4,556.40	4,281.75	4,022.85	3,778.90	3,549.05	3,332.50
4/1/2027	0.00	0.00	0.00	5,000.00	4,699.70	4,416.65	4,149.80	3,898.30	3,661.35	3,438.15
10/1/2027	0.00	0.00	0.00	0.00	4,847.50	4,555.75	4,280.70	4,021.50	3,777.25	3,547.15
4/1/2028	0.00	0.00	0.00	0.00	5,000.00	4,699.25	4,415.75	4,148.60	3,896.80	3,659.60
10/1/2028	0.00	0.00	0.00	0.00	0.00	4,847.30	4,555.10	4,279.70	4,020.15	3,775.60
4/1/2029	0.00	0.00	0.00	0.00	0.00	5,000.00	4,698.80	4,414.90	4,147.35	3,895.30
10/1/2029	0.00	0.00	0.00	0.00	0.00	0.00	4,847.05	4,554.45	4,278.65	4,018.75
4/1/2030	0.00	0.00	0.00	0.00	0.00	0.00	5,000.00	4,698.35	4,414.05	4,146.15
10/1/2030	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4,846.80	4,553.75	4,277.60
4/1/2031	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5,000.00	4,697.90	4,413.20
10/1/2031	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4,846.60	4,553.10
4/1/2032	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5,000.00	4,697.45
10/1/2032	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4,846.35
4/1/2033	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5,000.00
10/1/2033	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4/1/2034	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
10/1/2034	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4/1/2035	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
10/1/2035	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4/1/2036	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

10/1/2036	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4/1/2037	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
10/1/2037	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4/1/2038	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
10/1/2038	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4/1/2039	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
10/1/2039	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4/1/2040	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
10/1/2040	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4/1/2041	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
10/1/2041	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4/1/2042	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
10/1/2042	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4/1/2043	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
10/1/2043	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Year of Maturity: Initial Denominational Amount Compounding Rate Compounding Date	2034 753.50	2035 705.70	2066 660.80	2037 618.65	2038 579.05	2039 541.90	2040 507.05	2041 474.30	2042 446.90	2043 419.60	2043 406.55
	6.35%	6.36%	6.37%	6.38%	6.39%	6.40%	6.41%	6.42%	6.41%	6.41%	6.41%
4/1/2004	766.45	717.85	672.20	629.30	589.05	551.30	515.80	482.55	454.65	426.85	413.60
10/1/2004	790.80	740.70	693.60	649.40	607.90	568.90	532.35	498.05	469.25	440.55	426.85
4/1/2005	815.90	764.25	715.70	670.10	627.30	587.15	549.40	514.00	484.30	454.65	440.55
10/1/2005	841.80	788.55	738.50	691.50	647.35	605.90	567.00	530.50	499.80	469.25	454.65
4/1/2006	868.55	813.60	762.00	713.55	668.05	625.30	585.20	547.55	515.80	484.30	469.25
10/1/2006	896.10	839.50	786.30	736.30	689.40	645.30	603.95	565.15	532.35	499.80	484.30
4/1/2007	924.55	866.20	811.35	759.80	711.40	665.95	623.30	583.25	549.40	515.80	499.80
10/1/2007	953.90	893.75	837.15	784.05	734.15	687.30	643.30	602.00	567.00	532.35	515.80
4/1/2008	984.20	922.15	863.85	809.05	757.60	709.25	663.90	621.30	585.20	549.40	532.35
10/1/2008	1,015.45	951.45	891.35	834.85	781.80	731.95	685.20	641.25	603.95	567.00	549.40
4/1/2009	1,047.70	981.75	919.75	861.50	806.80	755.40	707.15	661.85	623.30	585.20	567.00
10/1/2009	1,080.95	1,012.95	949.05	888.95	832.55	779.55	729.80	683.10	643.30	603.95	585.20
4/1/2010	1,115.30	1,045.15	979.25	917.35	859.15	804.50	753.20	705.00	663.90	623.30	603.95
10/1/2010	1,150.70	1,078.40	1,010.45	946.60	886.60	830.25	777.35	727.65	685.20	643.30	623.30
4/1/2011	1,187.25	1,112.70	1,042.65	976.80	914.95	856.85	802.25	751.00	707.15	663.90	643.30
10/1/2011	1,224.95	1,148.10	1,075.85	1,007.95	944.15	884.25	827.95	775.10	729.80	685.20	663.90
4/1/2012	1,263.80	1,184.60	1,110.10	1,040.10	974.35	912.55	854.50	800.00	753.20	707.15	685.20
10/1/2012	1,303.95	1,222.25	1,145.45	1,073.30	1,005.45	941.75	881.90	825.70	777.35	729.80	707.15
4/1/2013	1,345.35	1,261.15	1,181.95	1,107.55	1,037.60	971.90	910.15	852.20	802.25	753.20	729.80
10/1/2013	1,388.05	1,301.25	1,219.60	1,142.85	1,070.75	1,003.00	939.35	879.55	827.95	777.35	753.20
4/1/2014	1,432.15	1,342.60	1,258.45	1,179.30	1,104.95	1,035.10	969.45	907.80	854.50	802.25	777.35
10/1/2014	1,477.60	1,385.30	1,298.50	1,216.95	1,140.25	1,068.20	1,000.50	936.90	881.90	827.95	802.25
4/1/2015	1,524.50	1,429.35	1,339.90	1,255.75	1,176.70	1,102.40	1,032.60	967.00	910.15	854.50	827.95
10/1/2015	1,572.90	1,474.80	1,382.55	1,295.80	1,214.30	1,137.65	1,065.65	998.05	939.35	881.90	854.50
4/1/2016	1,622.85	1,521.70	1,426.60	1,337.15	1,253.10	1,174.05	1,099.85	1,030.10	969.45	910.15	881.90
10/1/2016	1,674.40	1,570.10	1,472.05	1,379.80	1,293.10	1,211.65	1,135.10	1,063.15	1,000.50	939.35	910.15
4/1/2017	1,727.55	1,620.05	1,518.90	1,423.85	1,334.45	1,250.40	1,171.45	1,097.25	1,032.60	969.45	939.35
10/1/2017	1,782.40	1,671.55	1,567.30	1,469.25	1,377.05	1,290.45	1,209.00	1,132.50	1,065.65	1,000.50	969.45

4/1/2018	1,839.00	1,724.70	1,617.20	1,516.10	1,421.05	1,331.75	1,247.75	1,168.85	1,099.85	1,032.60	1,000.50
10/1/2018	1,897.40	1,779.55	1,668.70	1,564.50	1,466.50	1,374.35	1,287.75	1,206.35	1,135.10	1,065.65	1,032.60
4/1/2019	1,957.65	1,836.15	1,721.85	1,614.40	1,513.35	1,418.30	1,329.00	1,245.10	1,171.45	1,099.85	1,065.65
10/1/2019	2,019.80	1,894.55	1,776.70	1,665.90	1,561.70	1,463.70	1,371.60	1,285.05	1,209.00	1,135.10	1,099.85
4/1/2020	2,083.90	1,954.80	1,833.30	1,719.05	1,611.60	1,510.55	1,415.55	1,326.30	1,247.75	1,171.45	1,135.10
10/1/2020	2,150.10	2,016.95	1,891.70	1,773.85	1,663.05	1,558.90	1,460.95	1,368.90	1,287.75	1,209.00	1,171.45
4/1/2021	2,218.35	2,081.10	1,951.95	1,830.45	1,716.20	1,608.75	1,507.75	1,412.85	1,329.00	1,247.75	1,209.00
10/1/2021	2,288.80	2,147.25	2,014.10	1,888.85	1,771.05	1,660.25	1,556.10	1,458.20	1,371.60	1,287.75	1,247.75
4/1/2022	2,361.45	2,215.55	2,078.25	1,949.10	1,827.65	1,713.40	1,605.95	1,505.00	1,415.55	1,329.00	1,287.75
10/1/2022	2,436.40	2,286.00	2,144.45	2,011.30	1,886.00	1,768.20	1,657.45	1,553.30	1,460.95	1,371.60	1,329.00
4/1/2023	2,513.80	2,358.70	2,212.75	2,075.45	1,946.30	1,824.80	1,710.55	1,603.15	1,507.75	1,415.55	1,371.60
10/1/2023	2,593.60	2,433.70	2,283.25	2,141.65	2,008.45	1,883.20	1,765.40	1,654.65	1,556.10	1,460.95	1,415.55
4/1/2024	2,675.95	2,511.10	2,355.95	2,209.95	2,072.65	1,943.45	1,821.95	1,707.75	1,605.95	1,507.75	1,460.95
10/1/2024	2,760.90	2,590.95	2,431.00	2,280.45	2,138.85	2,005.65	1,880.35	1,762.55	1,657.45	1,556.10	1,507.75
4/1/2025	2,848.55	2,673.35	2,508.45	2,353.20	2,207.20	2,069.80	1,940.65	1,819.15	1,710.55	1,605.95	1,556.10
10/1/2025	2,939.00	2,758.35	2,588.30	2,428.30	2,277.70	2,136.05	2,002.85	1,877.55	1,765.40	1,657.45	1,605.95
4/1/2026	3,032.30	2,846.10	2,670.75	2,505.75	2,350.50	2,204.40	2,067.00	1,937.80	1,821.95	1,710.55	1,657.45
10/1/2026	3,128.60	2,936.60	2,755.80	2,585.70	2,425.60	2,274.95	2,133.25	2,000.00	1,880.35	1,765.40	1,710.55
4/1/2027	3,227.95	3,029.95	2,843.60	2,668.15	2,503.10	2,347.75	2,201.65	2,064.20	1,940.65	1,821.95	1,765.40
10/1/2027	3,330.40	3,126.30	2,934.15	2,753.30	2,583.05	2,422.90	2,272.20	2,130.50	2,002.85	1,880.35	1,821.95
4/1/2028	3,436.15	3,225.75	3,027.60	2,841.10	2,665.60	2,500.40	2,345.05	2,198.85	2,067.00	1,940.65	1,880.35
10/1/2028	3,545.25	3,328.30	3,124.05	2,931.75	2,750.75	2,580.45	2,420.20	2,269.45	2,133.25	2,002.85	1,940.65
4/1/2029	3,657.80	3,434.15	3,223.55	3,025.25	2,838.65	2,663.00	2,497.75	2,342.30	2,201.65	2,067.00	2,002.85
10/1/2029	3,773.95	3,543.35	3,326.20	3,121.80	2,929.35	2,748.20	2,577.80	2,417.50	2,272.20	2,133.25	2,067.00
4/1/2030	3,893.80	3,656.05	3,432.15	3,221.35	3,022.95	2,836.15	2,660.45	2,495.10	2,345.05	2,201.65	2,133.25
10/1/2030	4,017.40	3,772.30	3,541.50	3,324.15	3,119.50	2,926.90	2,745.70	2,575.20	2,420.20	2,272.20	2,201.65
4/1/2031	4,144.95	3,892.25	3,654.30	3,430.15	3,219.20	3,020.60	2,833.70	2,657.85	2,497.75	2,345.05	2,272.20
10/1/2031	4,276.55	4,016.05	3,770.65	3,539.60	3,322.05	3,117.25	2,924.50	2,743.15	2,577.80	2,420.20	2,345.05
4/1/2032	4,412.35	4,143.75	3,890.75	3,652.50	3,428.15	3,217.00	3,018.25	2,831.20	2,660.45	2,497.75	2,420.20
10/1/2032	4,552.45	4,275.55	4,014.70	3,769.00	3,537.70	3,319.95	3,115.00	2,922.10	2,745.70	2,577.80	2,497.75
4/1/2033	4,697.00	4,411.50	4,142.55	3,889.25	3,650.75	3,426.20	3,214.80	3,015.90	2,833.70	2,660.45	2,577.80
10/1/2033	4,846.10	4,551.80	4,274.50	4,013.30	3,767.40	3,535.80	3,317.85	3,112.70	2,924.50	2,745.70	2,660.45
4/1/2034	5,000.00	4,696.55	4,410.65	4,141.35	3,887.75	3,648.95	3,424.20	3,212.65	3,018.25	2,833.70	2,745.70
10/1/2034	0.00	4,845.90	4,551.10	4,273.45	4,011.95	3,765.75	3,533.95	3,315.75	3,115.00	2,924.50	2,833.70
4/1/2035	0.00	5,000.00	4,696.05	4,409.80	4,140.15	3,886.25	3,647.20	3,422.20	3,214.80	3,018.25	2,924.50
10/1/2035	0.00	0.00	4,845.65	4,550.45	4,272.40	4,010.60	3,764.10	3,532.05	3,317.85	3,115.00	3,018.25

4/1/2036	0.00	0.00	5,000.00	4,695.60	4,408.95	4,138.95	3,884.75	3,645.45	3,424.20	3,214.80	3,115.00
10/1/2036	0.00	0.00	0.00	4,845.40	4,549.80	4,271.40	4,009.25	3,762.45	3,533.95	3,317.85	3,214.80
4/1/2037	0.00	0.00	0.00	5,000.00	4,695.15	4,408.05	4,137.75	3,883.25	3,647.20	3,424.20	3,317.85
10/1/2037	0.00	0.00	0.00	0.00	4,845.15	4,549.15	4,270.35	4,007.90	3,764.10	3,533.95	3,424.20
4/1/2038	0.00	0.00	0.00	0.00	5,000.00	4,694.70	4,407.20	4,136.55	3,884.75	3,647.20	3,533.95
10/1/2038	0.00	0.00	0.00	0.00	0.00	4,844.95	4,548.45	4,269.30	4,009.25	3,764.10	3,647.20
4/1/2039	0.00	0.00	0.00	0.00	0.00	5,000.00	4,694.25	4,406.35	4,137.75	3,884.75	3,764.10
10/1/2039	0.00	0.00	0.00	0.00	0.00	0.00	4,844.70	4,547.80	4,270.35	4,009.25	3,884.75
4/1/2040	0.00	0.00	0.00	0.00	0.00	0.00	5,000.00	4,693.80	4,407.20	4,137.75	4,009.25
10/1/2040	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4,844.45	4,548.45	4,270.35	4,137.75
4/1/2041	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5,000.00	4,694.25	4,407.20	4,270.35
10/1/2041	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4,844.70	4,548.45	4,407.20
4/1/2042	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5,000.00	4,694.25	4,548.45
10/1/2042	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4,844.70	4,694.25
4/1/2043	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5,000.00	4,844.70
10/1/2043	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5,000.00

This Page Has Been Intentionally Left Blank

This Page Has Been Intentionally Left Blank

This Page Has Been Intentionally Left Blank



Recycled Paper - Printed by
IMAGEMASTER 800.452.5152